TRANSLATION

REPORT ON ACTIVITIES
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
IN THE FIRST HALF OF 2017

AUGUST 2017

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I. Poland's economy in the first half of 2017

1. Macroeconomic conditions and the situation in money and foreign exchange markets

Economic growth in the first quarter of 2017 accelerated to 4% from the 2.7% recorded in the fourth quarter of the previous year. In turn, the second quarter of 2017 probably brought only a slight slowdown, which translates into annual growth of almost 4% in the first half of 2017. Growth continues to be driven by private consumption as evidenced by the rapid growth of retail sales – by 7.8% YoY in the first quarter of 2017 as against 6.2% in the second half of the previous year. Growing consumer spending is the effect of further improvement in the labour market and the households' higher disposable incomes, still augmented by disbursements from the 500+ child benefit program. The registered unemployment rate has fallen steadily to reach historically low levels (7.1% at the end of June 2017). However, the improvement in industry and construction was the largest contributor to the uptick in economic activity in the first half of 2017. The seasonally adjusted manufacturing PMI increased to 53.7 in the first half of 2017 compared to 51.7 in the second half of 2016. Industrial output accelerated to 5.7% YoY from 2.0% YoY in the second half of the previous year while construction output grew by an average of 6.4% as against a decrease of 16.4%, which signals a recovery in infrastructural investments co-financed from EU funds.

Prices of consumer goods and services increased on average by 1.7% in the first half of 2017 compared to a decrease of 0.3% in the second half of 2016 and a decrease of 0.6% on average in the previous year as a whole. Inflation picked up considerably in the first months of the year, primarily due to higher fuel prices compared to the last year. Higher inflation was also sparked by rises in food and energy prices. Gradually, net inflation also increased (to 0.8% in June from 0.1% in December and -0.2% in the second half of 2016), reflecting a good economic climate and sustained high domestic demand.

Despite the significant increase in inflation and the fact that real interest rates dropped below zero, the Monetary Policy Council (MPC) has not decided to change interest rates. In its recent statements, the Monetary Policy Council has consistently stressed that in spite of very good economic performance it saw no need for monetary policy adjustments at least until the end of this year; in the opinion of most MPC members, such a need will probably not arise through most of 2018 either.

After a pronounced depreciation of the Polish zloty in the fourth quarter of 2016 in response to the outcome of the U.S. presidential election and fears of an outflow of capital from the emerging markets, in the first half of 2017 the domestic currency strengthened against both the euro and the U.S. dollar. The zloty was buoyed by very good economic figures and the decreased political risk premium, which was reflected in positive actions by credit rating agencies. The EUR/PLN exchange rate dropped to 4.23 at the end of June from 4.40 at the end of the previous year. The USD/PLN exchange rate fell to 3.70 from 4.18 respectively. The zloty strengthened more against the U.S. dollar due to the continued appreciation of the euro versus the dollar since the beginning of this year.

As regards the debt market, yields declined in the first quarter of 2017. While the upward trend continued at the beginning of the year, from mid-February bond yields began to decline gradually, supported by rising bond prices in core markets, while expectations concerning the scale of monetary policy tightening in Poland and in the U.S. receded. In the first half of 2017, yields on 2-year Treasury bonds fell to 1.91% from 2.04% at the end of December 2016. On the other hand, the yield on 10-year bonds dropped to 3.33% at the end of June from 3.63%. At the end of the first half of 2017, WIBOR 3M stayed at 1.73%, unchanged from the end of the previous year.

2. Capital market

In the domestic stock market in the first half of 2017, favorable trends were sustained that had emerged after the U.S. presidential election at the end of 2016. Mood on the Warsaw Stock Exchange (WSE) was supported by positive sentiment in the global financial markets as well as solid figures from the economy and inflows (though still relatively small) to domestic equity funds.

Since the beginning of this year, all major WSE indices have made clear double-digit gains. The highest rate of return was recorded by blue chips whose index (WIG 20) increased by 18.1% to almost 2,300 points. The mWIG40 mid-cap index gained 16.4%. In turn, the sWIG80 small-cap index advanced by 12.7%. The WIG broad market index recorded a return rate of 17.9%. Among the sectoral subindices, WIG-Fuels (+25.7% compared to the end of 2016) and WIG-Construction (+21.5% year to date) fared the best. On the other hand, the telecommunications companies index was the only sector subindex to lose value (-2.3%).

In the first six months, six new companies were listed on the main WSE market, of which three moved from the New Connect alternative market. At the same time, shares in ten companies were delisted. As a result, at the end of June shares in 483 companies were traded (no change YoY), including shares in 432 domestic undertakings. In terms of value, the initial public offering market recorded a marked improvement over the first half of 2016 with the total value of shares offered in excess of PLN 2.3 billion compared to PLN 365 million a year earlier. The overall market value of the companies listed on the WSE amounted to PLN 1,316 million (an increase of almost 44% YoY and of 18% compared to the end of 2016).

Warsaw Stock Exchange (WSE) Equity Indices as of June 30, 2017

Index	30.06.2017 (1)	31.12.2016 (2)	Change (%) (1)/(2)	30.06.2016 (3)	Change (%) (1)/(3)
WIG	61,018.36	51,754.03	17.9%	44,748.53	36.4%
WIG-PL	62,194.79	52,583.91	18.3%	45,543.29	36.6%
WIG-div	1,180.44	1,039.29	13.6%	920.82	28.2%

Index	30.06.2017 (1)	31.12.2016 (2)	Change (%) (1)/(2)	30.06.2016 (3)	Change (%) (1)/(3)
WIG20	2,299.80	1,947.92	18.1%	1,750.69	31.4%
WIG20TR	3,925.88	3,296.32	19.1%	2,911.51	34.8%
WIG30	2,663.68	2,243.30	18.7%	1,955.69	36.2%
mWIG40	4,907.43	4,215.54	16.4%	3,393.01	44.6%
sWIG80	16,069.01	14,259.47	12.7%	13,177.86	21.9%
Sector sub-indices					
WIG-Banks	7,261.87	6,263.33	15.9%	5,687.18	27.7%
WIG-Construction	3,470.78	2,857.41	21.5%	2,548.61	36.2%
WIG-Chemicals	14,778.71	13,755.90	7.4%	12,311.84	20.0%
WIG- Energy	3,037.52	2,551.21	19.1%	2,682.73	13.2%
WIG- Mining	4,106.07	3,516.44	16.8%	2,099.64	95.6%
WIG-IT	2,287.84	2,155.40	6.1%	1,714.45	33.4%
WIG-Media	5,126.77	4,561.93	12.4%	4,156.73	23.3%
WIG- Developers	2,130.39	1,829.06	16.5%	1,603.35	32.9%
WIG- Fuel	7,128.31	5,668.84	25.7%	4,696.12	51.8%
WIG- Food	4,473.78	4,154.32	7.7%	3,614.07	23.8%
WIG-Telecoms	713.40	730.02	(2.3%)	676.23	5.5%

Source: WSE, Dom Maklerski Banku Handlowego S.A. ("DMBH")

**The name of the stock indices has changed from WIG- Commodities to WIG-Mining*

Equity, bond and derivatives trading volumes on WSE in the first half of 2017

	1st half of 2017 (1)	2nd half of 2016 (2)	Change (%) (1)/(2)	1st half of 2016 (3)	Change (%) (1)/(3)
Equity (PLN million)*	281,706	225,004	25.2%	179,581	56.9%
Bonds (PLN million)	1,485	1,688	(12.0%)	1,163	27.7%
Futures ('000 contracts)	8,097	7,697	5.2%	7,499	8.0%
Options ('000 contracts)	339	403	(15.9%)	352	(3.7%)

** figures excluding calls*
Source: WSE, DMBH

Favorable trends on the domestic stock market were also reflected in the marked increase in activity in this segment. In the first half of 2017, turnover on the equity instrument market (both during sessions and in package transactions) amounted to PLN 281.7 billion, which means an increase of 56.9% YoY and of 25.2% compared to the second half of 2016.

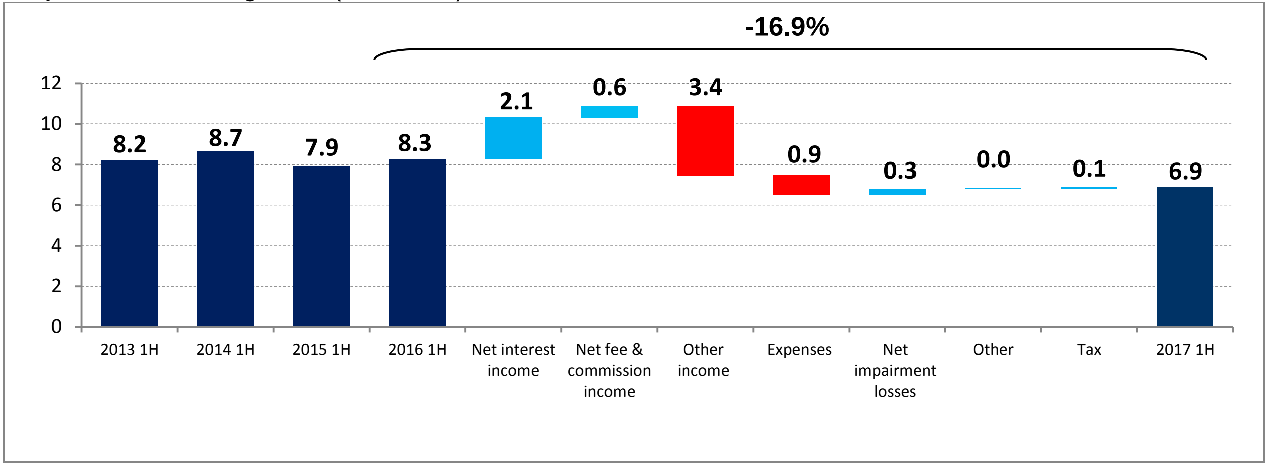
In the case of debt instruments, turnover reached slightly below PLN 1.5 billion. Compared to the second half of 2016, turnover in this segment decreased by 12.0%, but it was higher by 27.7% compared to the first half of 2016.

In the forwards and futures market, there was a slight uptick in investor activity. The volume of forward and future contracts traded amounted to almost 8.1 million units, which translated into annual and semiannual growth of 8.0% and 5.2%, respectively.

The volume of trade in options was almost 339,000 units and was on a decrease both in annual terms (-3.7%) and compared to the second half of the previous year (-15.9%).

3. Banking sector

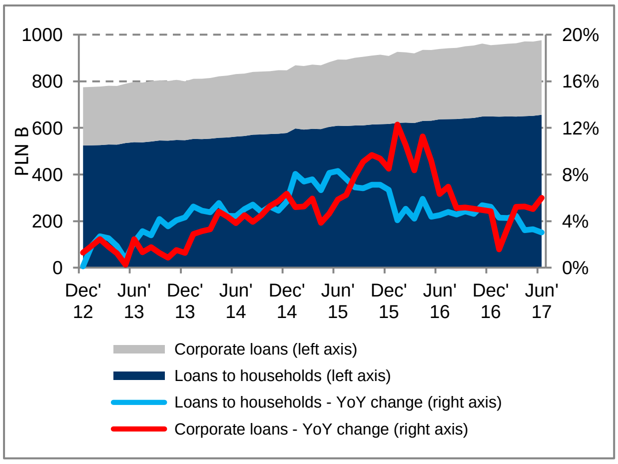
Net profit of the banking sector (PLN billion)



Source: NBP, own calculations

According to the National Bank of Poland, the net profit of the banking sector in the first half of 2017 decreased by about 16.9% (PLN 1.4 bn) compared to the last year to PLN 6.9 bn, which is the worst performance seen since the first half of 2010. The main cause for the deterioration in the net result was an increase in operating expenses by 5.5% YoY due, among other things, to the mandatory contributions to the Resolution Fund managed by the Bank Guarantee Fund as well as bank tax (which had been in force since February 2016). Another factor with an appreciable effect on the result is a strong decline in the other income category (-46.6%) resulting from the base effect of the settlement of the acquisition of Visa Europe by Visa Inc. in June 2016, which caused domestic banks to book more than PLN 2 bn in revenues. With respect to core revenues, an improvement was recorded in the banks' net interest income (+6.8% YoY, PLN 1.8 bn), achieved owing to an increased lending volume and lower cost of financing. The fee and commission income also improved compared to last year (+9% YoY, PLN 564 m). Despite this growth, the total revenue of the banking sector declined by PLN 0.8 bn to PLN 31 bn. The performance of the sector measured by the cost/income ratio deteriorated considerably. The ratio increased from 53.4% at the end of first half of 2016 to 57.8% at the end of first half of 2017. Net impairment loss decreased by 7.0% YoY (PLN 300 m), and a clear improvement was recorded in the quality of the loan portfolio, as measured by the NPL ratio (by -0.4 pp YoY to 6.3%). The strongest improvement in quality was recorded in the corporate loans portfolio, where the ratio of non-performing loans (NPL) decreased during the year by 1.4 pp to 8.2%. The ratio improved both in corporate lending (-1.2 pp YoY to 6.0%) and in SME lending (-1.5 pp YoY to 9.8%). In the portfolio of loans to households, the NPL ratio remained stable at 6.2%. Improvement was recorded in the consumer lending area (-0.2 pp to 12.0%), while mortgage lending remained stable at 2.9%.

Loans granted to corporate entities and households

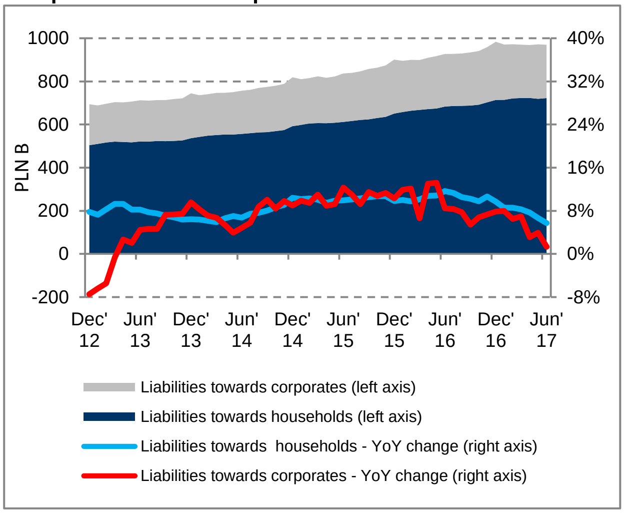


Source: NBP, own calculations

In the first half of 2017, the growth rate of lending to the non-financial sector gradually slowed down to +4.0% YoY (PLN 42 bn) at the end of June 2017. The value of corporate lending increased by +6.0% YoY, reaching PLN 320 bn at the end of June 2017. Classifying corporate lending by intended purpose, the strongest growth was observed in the case of investment loans (+12.7% YoY), while operating loans grew at a considerably lower rate (+4.4% YoY). In the same period, corporate real property lending declined by -3.1% YoY. However, looking at original tenors, medium-term loans (1 to 5 years) achieved the highest growth rate and their value increased by +12.2% YoY at the end of June 2017. They were closely followed by long-term loans, with tenors exceeding five years (+6.9% YoY). In contrast, the volume of short-term lending (under 1 year) remained almost stable (-0.2% YoY).

Slower growth in volume was also seen in the loans to households category (+3.1% YoY, an increase by PLN 20 bn to PLN 656 bn). The lower growth rate was mainly due to a slowdown in the growth of real property lending volumes, which improved by as little as 1.5% YoY to PLN 404 bn, mostly as a result of the appreciation of the Polish zloty, leading to a reduction in the volume of real property loans in foreign currencies by -11.5% YoY (PLN 19.2 bn). At the same time, the market of real property loans in Polish zloty recorded an increase by 10.9% YoY (PLN 25.1 bn). Slowdown is also visible in investment loans for micro-enterprises, which grew only by 0.8% YoY (to PLN 264 m). On the other hand, consumer lending volume grew considerably by +7.0% YoY (by PLN 10.6 bn to PLN 163 bn).

Corporate and retail deposits



Source: NBP, own calculations

Corporate deposits increased scarcely by +1.3% YoY (by PLN 3.4 bn to PLN 247 bn). This growth was mainly due to the consistently strong increase in current deposits (+9.3% YoY to PLN 158 bn). However, it was offset by a -10.4% YoY decline in term deposits (decrease in volume to PLN 89 bn) as at the end of June. A stronger growth rate was recorded by household deposits, with their volume increasing by +5.7% YoY (by PLN 39.2 bn to PLN 722 bn). Similarly to corporate deposits, the growth was mainly driven by current deposits (an increase by +15.1% YoY, by PLN 55.8 bn to PLN 425 bn), while term deposits declined by -5.3% YoY (by PLN 16.5 bn to PLN 298 bn).

Similar market conditions as those prevailing in early 2017 (low interest rates, bank tax) are expected to continue throughout the second half of 2017. As a result, banks will carry on with their efforts consisting in the adjustment of their business models to the market situation, which is characterized by high costs and strong competition in the high-margin product area.

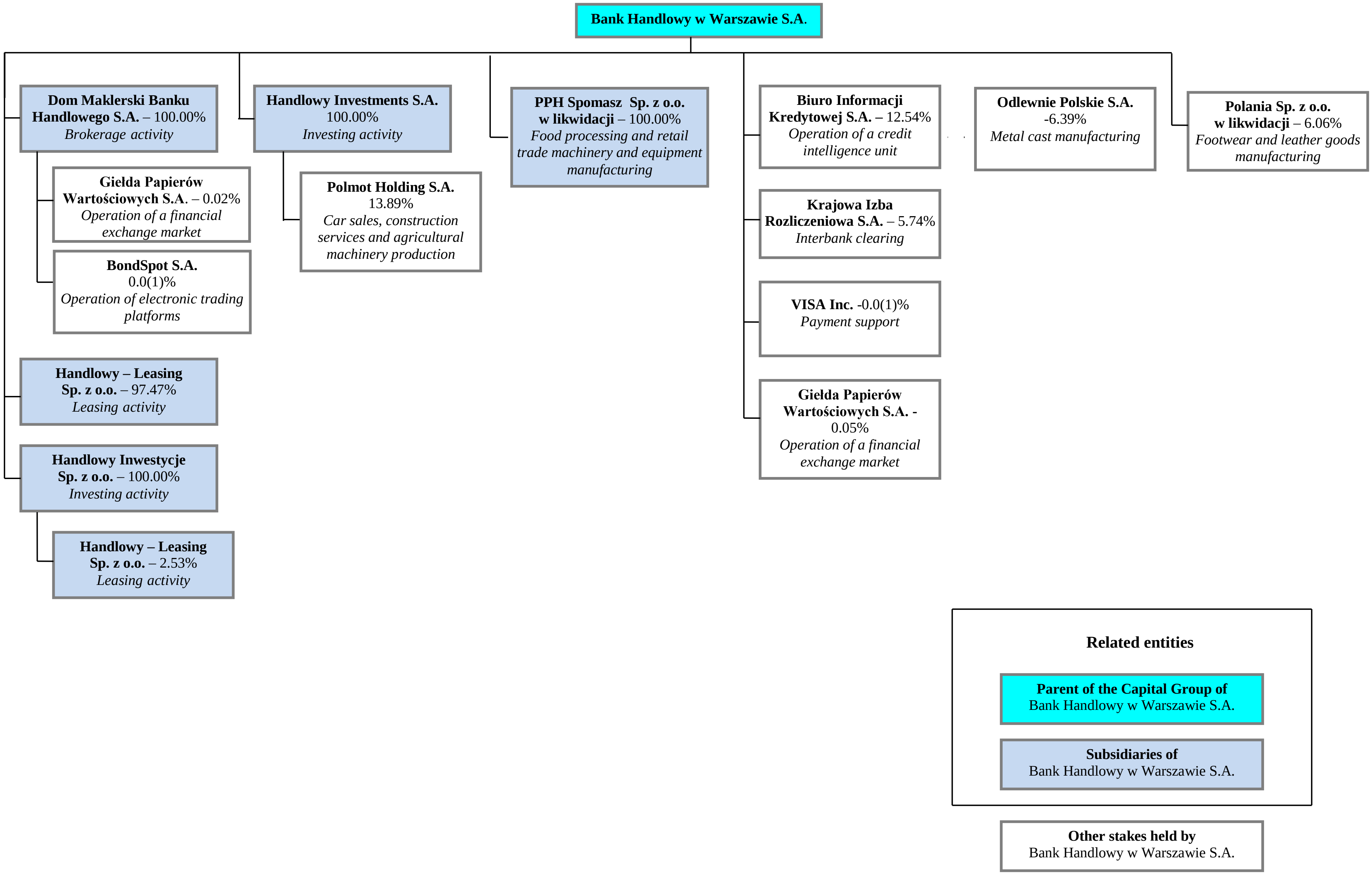
The situation of association of savings and credit unions is also an important challenge to the banking sector. Some associations undergo recovery proceedings under the supervision of the Polish Financial Supervision Authority, and their future remains uncertain. Possible bankruptcies of successive associations could necessitate the further utilization of the Bank Guarantee Fund deposits. The burden of replenishing the utilized funds will be carried mostly by the banking sector, which could have an adverse effect on the cost levels of financial institutions over the next years.

The banking sector continues to be exposed to a considerable risk of FX mortgage loans, although it seems that the risk of implementing proposals that could potentially generate costs endangering the stability of the banking system has alleviated. Additionally, the appreciation of the Polish zloty against the euro and Swiss franc in the first half of 2017 has a favorable effect on the situation of foreign currency borrowers and their creditors. Continued fast economic growth and strong consumption will offer an opportunity to banks as potential drivers of credit demand. In the long-term, a step-up in interest rates is also likely, fueled by the economy picking up, good labour market situation and increasing net inflation.

The recent years have been marked by an increased activity in the market of financial sector mergers and acquisitions. It seems that the ownership structure of the banking sector should not change significantly in the near future.

II. Organizational chart of the Capital Group of Bank Handlowy w Warszawie S.A.

The organizational chart below depicts the structure of the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as of June 30, 2017; the Bank's share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego S.A. – 100.00%
Brokerage activity
Giełda Papierów Wartościowych S.A. – 0.02%
Operation of a financial exchange market
BondSpot S.A.
0.0(1)%
Operation of electronic trading platforms
Handlowy – Leasing Sp. z o.o. – 97.47%
Leasing activity
Handlowy Inwestycje Sp. z o.o. – 100.00%
Investing activity
Handlowy – Leasing Sp. z o.o. – 2.53%
Leasing activity
Handlowy Investments S.A.
100.00%
Investing activity
Polmot Holding S.A.
13.89%
Car sales, construction services and agricultural machinery production
PPH Spomasz Sp. z o.o. w likwidacji – 100.00%
Food processing and retail trade machinery and equipment manufacturing
Biuro Informacji Kredytowej S.A. – 12.54%
Operation of a credit intelligence unit
Krajowa Izba Rozliczeniowa S.A. – 5.74%
Interbank clearing
VISA Inc. -0.0(1)%
Payment support
Giełda Papierów Wartościowych S.A. - 0.05%
Operation of a financial exchange market
Odlewnie Polskie S.A.
-6.39%
Metal cast manufacturing
Polania Sp. z o.o. w likwidacji – 6.06%
Footwear and leather goods manufacturing
Related entities
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiaries of Bank Handlowy w Warszawie S.A.
Other stakes held by Bank Handlowy w Warszawie S.A.

III. The organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The Capital Group of Bank Handlowy w Warszawie S.A. ("Group") consists of a parent company and subsidiaries:

BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2017
Bank Handlowy w Warszawie S.A.*	Banking	parent	-	-	6,430,109
Dom Maklerski Banku Handlowego S.A. ("DMBH")	Brokerage activities	subsidiary	100.00%	full consolidation	108,429
Handlowy - Leasing Sp. z o.o.	Leasing activities	subsidiary	100.00%**	full consolidation	22,905
Handlowy Investments S.A.	Investing activity	subsidiary	100.00%	full consolidation	18,085
PPH Spomasz Sp. z o.o. w likwidacji	Ceased operations	subsidiary	100.00%	full consolidation	Entity under liquidation

** Equity of Bank Handlowy w Warszawie S.A. as per statement of financial position of the Bank for the first half of 2017*
*** Including indirect participations*

BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES NOT FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2017
Handlowy Inwestycje Sp. z o.o.	Investing activity	subsidiary	100.00%	equity valuation	11,100

IV. Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Summary financial data of the Group

PLN million	30 Jun 2017	31 Dec 2016
Total assets	44,592.5	45,209.9
Total equity	6,482.8	6,790.5
Amounts due from customers*	19,718.0	18,860.1
Customer deposits*	32,232.8	33,819.0
Net profit	200.6	326.3**
Total capital adequacy ratio	17.7%	17.4%

** Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*
*** Net profit for the first half of 2016.*

2. Financial result of the Group for the first half of 2017

The following financial results are presented on the basis of the abridged semi-annual financial statement of the Group for the period of the first 6 months of the year ended June 30, 2017.

2.1 Income statement

In the first half of 2017 the Group delivered a consolidated net profit of PLN 200.6 million, down by PLN 125.7 million (or 38.5%) compared to PLN 326.3 million in the first half of 2016. The consolidated profit before tax in the first half of 2017 amounted to PLN 276.1 million, down by 132.6 million compared to the corresponding period of the previous year.

At the same time the revenues of the Group dropped by PLN 77.2 million (or 7.2%) to PLN 991.5 million mainly due to the recognition in the Bank's statements of the settlement of the transaction of acquisition of Visa Europe Limited by Visa Inc. of PLN 93.0 million in the first half of 2016, while core income defined as the sum of net interest income and net fee and commission income increased by 3.4% YoY.

In the first half of 2017 operating costs, general administrative expenses and depreciation increased slightly by PLN 18.6 million (or 3.0%) to PLN 632.9 million primarily due to the recognition of the annual contribution for the BFG's compulsory bank resolution fund in the amount of PLN 60.9 million in the Bank's books in the first quarter of 2017. Assuming no change in the methodology of calculation and payment of contributions to the BFG and a stable basis for their calculation (i.e. eliminating the amount of PLN 43.2 million constituting an excessive charge incurred in respect of BFG in the first half of 2017 compared to the first half of 2016), the comparable cost base decreased by 4.0% YoY.

The net impairment due to financial assets and provisions value losses for granted financial and guarantee liabilities in the first half of 2017 amounted to PLN 42.7 million compared to PLN 14.5 million in the corresponding period of the previous year, up by PLN 28.2 million. A higher level of write-offs was reported in Institutional Banking segment due to reversals of provisions for individually assessed impaired loans in the first half of 2016.

Selected income statement items

	1st half of		Change	
PLN'000	**2017**	**2016**	**PLN'000**	**%**
Net interest income	518,349	499,721	18,628	3.7%
Net fee and commission income	289,666	281,753	7,913	2.8%
Dividend income	8,948	7,334	1,614	22.0%
Net income on trading financial instruments and revaluation	152,931	145,236	7,695	5.3%
Net gain on investment debt securities available-for-sale	15,861	20,925	(5,064)	(24.2%)
Net gain on investment equity instruments available-for-sale	3,377	93,907	(90,530)	(96.4%)
Net loss on hedge accounting	3,554	7,561	(4,007)	(53.0%)
Net other operating income	(1,173)	12,319	(13,492)	-
Total income	**991,513**	**1,068,756**	**(77,243)**	**(7.2%)**
General administrative expenses and depreciation:	(632,921)	(614,288)	(18,633)	3.0%
General administrative expenses	(597,442)	(578,394)	(19,048)	3.3%
Depreciation and amortization	(35,479)	(35,894)	415	(1.2%)
Profit on sale of non-financial assets	30	87	(57)	(65.5%)
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	(42,706)	(14,492)	(28,214)	194.7%
Share in net profits/losses of entities valued at equity method	265	78	187	239.7%
Tax on some financial institutions	(40,111)	(31,512)	(8,599)	27.3%
Profit before tax	**276,070**	**408,629**	**(132,559)**	**(32.4%)**
Income tax expense	(75,431)	(82,280)	6,849	(8.3%)
Net profit	**200,639**	**326,349**	**(125,710)**	**(38.5%)**

2.1.1 Revenues

Net interest income was the most important source of revenue of the Group in the first half of 2017 (52.3% of total revenue). It amounted to PLN 518.3 million compared to PLN 499.7 million in the first half of 2016, up by PLN 18.6 million (or 3.7%).

Despite the record low interest rate environment, interest income in the first half of 2017 increased by PLN 18.6 million (or 3.0%) to PLN 642.2 million. Amounts from customers, which were the main source of interest income, amounted to PLN 447.3 million, up by PLN 44.4 million (or 11.0%) compared to the first half of 2016 due to credit volume growth and positive impact of the credit margin. On the other hand, interest income from debt securities held-for-trading and debt securities available-for-sale reported a decline by PLN 22.6 million (or 65.7%) and PLN 15.9 million (or 9.6%) respectively, mainly due to a lower average volume on securities. At the same time interest expense in the first half of 2017 remained stable. Consequently, the total net interest margin in relation to average earning assets in the first half of the year 2017 improved to 2.54% from 2.26% in the first half of 2016.

Net fee and commission income in the first half of 2017 amounted to PLN 289.7 million compared to PLN 281.8 million in the corresponding period of 2016 – up by PLN 7.9 million (or 2.8%). The biggest increase in net fee and commission income – in percentage terms - was generated by commissions on brokerage operations (+ 65.0%), reflecting the increased activity of Dom Maklerski Bank Handlowego S.A. (Brokerage House of Bank Handlowy) as well as transactions on the stock market

Net income on trade financial instruments and revaluation in the first half of 2017 amounted to PLN 152.9 million compared to PLN 145.2 in the corresponding period of 2016 – up by PLN 7.7 million (or 5.3%), mainly due to higher net income on debt instruments.

Net gain on investment debt securities in the first half of 2017 amounted to PLN 15.9 million, down by PLN 5.1 million (or 24.4%) compared to the corresponding period of the previous year.

Net gain on capital investment instruments available-for-sale in the first half of 2017 amounted to PLN 3.4 million, down by 91 million (or 96.4%) in the corresponding period of 2016 due to the recognition in the Bank's statements of the settlement of the transaction of acquisition of Visa Europe Limited by Visa Inc. of PLN 93 million.

Net other operating income in the first half of 2017 amounted to PLN -1.2 million, down by PLN 13.5 million (or 109.5%) compared to the corresponding period of the previous year, due to the recognition of one-off events in the first half of 2016, i.e. reimbursement of VAT and reversal of the provision on litigation.

2.1.2 Expenses

In the first half of 2017 the Group's general administrative and depreciation expenses amounted to PLN 632.9 million compared PLN 614.3 million in the corresponding period of 2016. An increase of PLN 18.6 million (or 3.0%) was primarily due to higher administrative costs by PLN 37.4 million (or 13.1%) as a result of higher Bank Guarantee Fund charges due to the recognition of the annual BFG resolution fund contribution of PLN 60.9 million in the first quarter of 2017 costs. At the same time advertising and marketing expenses increased.

On the other hand, staff expenses dropped by PLN 18.3 million (or 6.3%) compared to the first half of 2016 due to falling headcount. The average employment in the Group in the reporting period dropped by 282 FTEs.

2.1.3 Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees

Net impairment losses and provisions

PLN'000	1st half of		Change	
	2017	**2016**	**PLN'000**	**%**
Net impairment losses incurred but not reported (IBNR)	2,034	(4,630)	6,664	-
Net impairment losses on loans and provisions for financial and guarantee liabilities	(41,913)	(11,644)	(30,269)	260.0%
classifiable (individual assessment)	(7,386)	9,813	(17,199)	-
delinquency managed (portfolio assessment)	(34,527)	(21,457)	(13,070)	60.9%
Other	(2,827)	1,782	(4,609)	-
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	**(42,706)**	**(14,492)**	**(28,214)**	**194.7%**

In the first half of 2017 net impairment due to financial assets and provisions value losses for granted financial and guarantee liabilities amounted to PLN -42.7 million compared to PLN -14.5 million in the first half of 2016. The Institutional Banking Segment reported an increase in net impairment losses by PLN 28.9 million mainly due to reversals of provisions for individually assessed impaired loans in the first half of 2016. In the Consumer Banking Segment net impairment losses in the first half of 2017 remained almost flat (a drop by PLN 0.7 million), which confirms high quality of the credit portfolio.

2.1.4 Tax on assets of certain financial institutions

The total tax burden for the P&L account of the Capital Group of Bank Handlowy w Warszawie S.A. for the first six months of 2017 amounted to PLN 40.1 million compared to PLN 31.5 million in the first half of 2016 (a higher amount is due to the fact that in 2016 the tax was introduced for the first time in February).

2.1.5 Ratio analysis

Selected financial ratios

	1st half of 2017	1st half of 2016
Return on equity (ROE) *	7.6%	9.4%
Return on assets (ROA) **	1.1%	1.2%
Cost/Income (C/I)	64%	57%
Non-financial sector loans to non-financial sector deposits	66%	64%
Non-financial sector loans to total assets	40%	39%
Net interest income to total revenue	52%	47%
Net fee and commission income to total revenue	29%	26%

** Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis.*

*** Net profit to average total assets calculated on a quarterly basis.*

Employment within the Group

FTEs	1st half of 2017	1st half of 2016	Change	
			FTEs	**%**
Average no. of jobs in the period	3,588	3,870	(282)	(7.3%)
No. of jobs at the end of the period	3,546	3,775	(229)	(6.1%)

2.2 Consolidated statement of financial position

As of June 30, 2017, total assets of the Group stood at PLN 44.6 billion, down by 1.4% compared to the end of 2016.

Consolidated statement of financial position

PLN'000	As of		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
ASSETS				
Cash and balances with the Central Bank	469,006	665,755	(196,749)	(29.6%)
Amounts due from banks	748,409	587,087	161,322	27.5%
Financial assets held-for-trading	1,872,526	3,781,405	(1,908,879)	(50.5%)
Hedging derivatives	857	12,244	(11,387)	(93.0%)
Debt securities available-for-sale	19,480,250	19,072,371	407,879	2.1%
Equity investments valued at equity method	10,686	10,471	215	2.1%
Equity investments available-for-sale	23,762	22,842	920	4.0%
Amounts due from customers	19,718,046	18,860,053	857,993	4.5%
Tangible fixed assets	334,963	342,971	(8,008)	(2.3%)
Intangible assets	1,367,963	1,350,861	17,102	1.3%
Current income tax receivables	-	13,901	(13,901)	(100.0%)
Deferred tax asset	200,879	198,383	2,496	1.3%
Other assets	349,706	289,644	60,062	20.7%
Non-current assets held-for-sale	15,430	1,928	13,502	700.3%
Total assets	**44,592,483**	**45,209,916**	**(617,433)**	**(1.4%)**
LIABILITIES				
Amounts due to banks	2,609,453	2,310,742	298,711	12.9%
Financial liabilities held-for-trading	1,296,396	1,305,614	(9,218)	(0.7%)
Hedging derivatives	37,336	39,897	(2,561)	(6.4%)
Amounts due to customers	32,412,062	33,936,511	(1,524,449)	(4.5%)
Provisions	15,049	22,856	(7,807)	(34.2%)
Current income tax liabilities	33,096	-	33,096	-
Other liabilities	1,706,266	803,846	902,420	112.3%
Total liabilities	**38,109,658**	**38,419,466**	**(309,808)**	**(0.8%)**
EQUITY				
Ordinary shares	522,638	522,638	-	-
Share premium	3,003,969	3,003,082	887	0.0%
Revaluation reserve	(132,535)	(214,843)	82,308	(38.3%)
Other reserves	2,897,885	2,885,044	12,841	0.4%
Retained earnings	190,868	594,529	(403,661)	(67.9%)
Total equity	**6,482,825**	**6,790,450**	**(307,625)**	**(4.5%)**
Liabilities and equity	**44,592,483**	**45,209,916**	**(617,433)**	**(1.4%)**

2.2.1 Assets

Gross amounts due from customers

PLN'000	As of		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
Non-banking financial institutions	1,844,221	1,708,064	136,157	8.0%
Non-financial companies	11,505,612	10,917,310	588,302	5.4%
Individuals	6,882,564	6,697,209	185,355	2.8%
Public sector entities	81,126	100,889	(19,763)	(19.6%)
Non-commercial institutions	3	2	1	50.0%
Total gross receivables from clients	**20,313,526**	**19,423,474**	**890,052**	**4.6%**

In the first half of 2017 gross receivables due from customers increased by PLN 0.9 billion (or 4.6%) compared to the end of 2016 and amounted to PLN 20.3 billion, due to increased lending to non-financial sector customers (PLN +0.8 billion, or 4.3%). Amounts due from customers grew on both institutional customers side (PLN +0.7 billion, or 5.6%; mainly GSG clients andCommercial Banking clients) and retail customers side (PLN 0.2 billion, or 2.8%; due to unsecured loans and mortgage loans increase).

Customer net receivables

PLN '000	As of		Change	
	30.06.2017	31.12.2016	PLN '000	%
Receivables from financial sector entities	**1,824,645**	**1,690,254**	**134,391**	**8.0%**
Receivables from non-financial sector entities, including:	**17,893,401**	**17,169,799**	**723,602**	**4.2%**
Institutional customers*	11,329,023	10,757,372	571,651	5.3%
Individual customers, including:	6,564,378	6,412,427	151,951	2.4%
Unsecured receivables	5,213,381	5,096,265	117,116	2.3%
Mortgage loans	1,350,997	1,316,162	34,835	2.6%
Total net customer receivables	**19,718,046**	**18,860,053**	**857,993**	**4.5%**

**Institutional clients include enterprises, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.*

Debt securities portfolio

PLN'000	As of		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
Treasury bonds, including:	20,318,013	19,312,519	1,005,494	5.2%
Bonds hedged in the fair value hedge accounting	4,523,172	4,794,696	(271,524)	(5.7%)
Bonds issued by banks, including:	67,590	66,866	724	1.1%
Covered bonds in fair value hedge accounting	34,633	-	34,633	-
Bonds issued by financial institutions	17,791	58,299	(40,508)	(69.5%)
Bonds and notes issued by Central Bank	-	2,239,715	(2,239,715)	(100.0%)
Debt securities, total	**20,403,394**	**21,677,399**	**(1,274,005)**	**(5.9%)**

The debt securities portfolio decreased as of the end of the first half of 2017 by PLN 1.3 billion (or 5.9%), primarily as a result of the decreased position in NBP monetary bills, partially offset by the increased position in Treasury bonds classified as available for sale.

2.2.2 Liabilities

Liabilities towards customers

PLN'000	As of		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
Deposits from financial sector entities	**5,039,441**	**4,696,126**	**343,315**	**7.3%**
Deposits of non-financial sector entities, including:	**27,193,334**	**29,122,881**	**(1,929,547)**	**(6.6%)**
non-financial companies	12,938,784	15,372,571	(2,433,787)	(15.8%)
non-commercial institutions	800,975	564,636	236,339	41.9%
individual customers	10,433,197	9,948,975	484,222	4.9%
public sector units	3,020,378	3,236,699	(216,321)	(6.7%)
Other liabilities	**179,287**	**117,504**	**61,783**	**52.6%**
Liabilities towards customers, total	**32,412,062**	**33,936,511**	**(1,524,449)**	**(4.5%)**
Deposits of financial and non-financial sector entities, including:				
in PLN	24,041,515	26,395,804	(2,354,289)	(8.9%)
in foreign currency	8,191,260	7,423,203	768,057	10.3%
Deposits from financial and non-financial sector entities, total	**32,232,775**	**33,819,007**	**(1,586,232)**	**(4.7%)**

The Group's assets are mainly financed by the deposits of non-financial sector customers, which as of the end of the first half of 2017 dropped by PLN 1.9 billion, or 6.6%. The decrease was seasonal in nature mainly as a result of the high base as of the end of 2016 of current account balance of non-financial companies. At the same time, for another quarter in a row, individual customers' deposits increased by PLN 0.5 billion or 4.9% versus the end of 2016, mainly in the current accounts segment.

2.2.3 Source and use of funds

PLN'000	30 Jun 2017	31 Dec 2016
Source of funds		
Banks	2,609,453	2,310,742
Customers	32,412,062	33,936,511

PLN'000	30 Jun 2017	31 Dec 2016
Own funds including net income	6,482,825	6,790,450
Other	3,088,143	2,172,213
Total source of funds	**44,592,483**	**45,209,916**
Use of funds		
Amounts due from banks	748,409	587,087
Amounts due from customers	19,718,046	18,860,053
Securities, shares and other financial assets	21,387,224	22,887,089
Other	2,738,804	2,875,687
Total use of funds	**44,592,483**	**45,209,916**

2.3 Equity and total capital adequacy ratio

As compared to the end of 2016 the value of equity (excluding the financial result) of the Group as of the end of the first half of 2017 increased by PLN 93.3 million (or 1.5%), primarily due to increase in revaluation reserve (PLN +82.3 million).

Equity*

	As of		Change	
PLN'000	30 Jun 2017	31 Dec 2016	PLN'000	%
Ordinary shares	522,638	522,638	-	-
Share premium	3,003,969	3,003,082	887	0.0%
Reserve capital	2,356,107	2,356,107	-	-
Revaluation reserve	(132,535)	(214,843)	82,308	(38.3%)
General risk reserve	540,200	529,000	11,200	2.1%
Other equity	(8,193)	(7,114)	(1,079)	15.2%
Total equity	**6,282,186**	**6,188,870**	**93,316**	**1.5%**

** Equity net of net profit.*

The equity level is fully sufficient to ensure the financial security of the company and the security of funds deposited in the Bank as well as it fully supports growth opportunities of the Group.

The following table presents financial data for the calculation of the CAR based on the consolidated financial statements of the Group.

Total capital adequacy ratio*

	PLN'000	30 Jun 2017	31 Dec 2016
I	**Tier I capital**	**4,848,047**	**4,796,869**
II	**Total capital requirements, including:**	**2,194,874**	**2,199,922**
	credit risk capital requirements	1,749,035	1,687,217
	counterparty risk capital requirements	59,993	65,908
	credit valuation capital requirements	39,964	63,927
	excess concentration and large exposures risks capital requirements	3,920	1,792
	total market risk capital requirements	53,450	74,357
	operational risk capital requirements	288,512	306,721
	Tier I capital ratio	**17.7%**	**17.4%**

**Capital Adequacy Ratio was calculated according to the rules stated in the Regulation no 575/2013 of the European Parliament and of the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) no 648/2012*

As of June 30, 2017 the total capital adequacy ratio of the Group was 17.7%, up by 0.3 pp compared to the end of 2016 due to less stringent capital requirements for credit valuation adjustment and market risk.

2.4 Earnings forecast for 2017

The Bank as the parent entity did not publish earnings forecast for 2017.

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2017

1. Lending and other risk exposures

1.1 Lending

The Group's lending policy is based on active portfolio management and well-defined target markets, designed to facilitate exposure and credit risk analysis in the customer's business areas. Moreover, each borrower is constantly monitored to detect any signs of deteriorating creditworthiness and to implement corrective measures as early as possible. In the first half of 2017, the Group continued its efforts to optimize the lending process and to adjust its credit offering to customer needs and to the current market situation. The consumer lending portfolio is managed with the use of models that account for the risk and profitability of individual credit groups in the portfolio. Information from the Credit Information Bureau (BIK) is used in the credit risk assessment of consumer banking customers, in particular as part of scorecard analysis.

Gross receivables to customers

PLN'000	As at		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
Receivables in PLN	17,596,561	16,520,674	1,075,887	6.5%
Receivables in foreign currency	2,716,965	2,902,800	(185,835)	(6.4%)
Total	**20,313,526**	**19,423,474**	**890,052**	**4.6%**
Receivables from non-financial sector entities	18,469,305	17,715,410	753,895	4.3%
Receivables from financial sector entities	1,844,221	1,708,064	136,157	8.0%
Total	**20,313,526**	**19,423,474**	**890,052**	**4.6%**
Non-banking financial institutions	1,844,221	1,708,064	136,157	8.0%
Non-financial sector entities	11,505,612	10,917,310	588,302	5.4%
Individuals	6,882,564	6,697,209	185,355	2.8%
Public sector entities	81,126	100,889	(19,763)	(19.6%)
Non-commercial institutions	3	2	1	50.0%
Total	**20,313,526**	**19,423,474**	**890,052**	**4.6%**

As at 30 June 2017, the gross credit exposure to customers was PLN 20.3 billion, marking an increase by 4.6% in relation to 31 December 2016. The growth was mainly driven by increasing exposures to current corporate banking customers. Loans to non-financial businesses make up the largest proportion of the non-banking loan portfolio, having increased by 5.4% to PLN 11.5 bn in the first half of 2017. Retail exposure increased by 2.8% in relation to the end of 2016, reaching PLN 6.9 billion.

The currency composition of loans as at the end of June 2017 did not change compared to the end of 2016. Foreign currency loans had a 13% share in the portfolio as at 30 June 2017. It should be noted that the Group lends mostly in Polish zlotys, while FX lending is provided to those corporate clients who – according to the Group – are able to absorb the FX risk without overly jeopardizing their financial condition.

The Group monitors the concentration of its credit exposures on a regular basis, seeking to avoid situations where its portfolio is dependent on a small number of customers. As at the end of June 2017, the Group's credit exposure to the non-banking sector was within the legal concentration limit.

Concentration of exposures – non-bank clients

PLN'000	30 Jun 2017			31 Dec 2016		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 1	1,000,000	-	1,000,000	1,000,000	-	1,000,000
CLIENT 2	411,438	497,170	908,608	564,798	500,185	1,064,983
GROUP 3	83,128	778,554	861,682	115,751	763,725	879,476
GROUP 4	682,081	169,926	852,007	431,855	156,716	588,571
CLIENT 5	352,900	397,100	750,000	316,900	433,100	750,000
GROUP 6	34	623,428	623,462	14	641,332	641,346
GROUP 7	396,001	205,184	601,185	396,000	205,445	601,445
CLIENT 8	1	600,078	600,079	-	77	77
CLIENT 9	600,000	0	600,000	600,000	-	600,000

PLN'000	30 Jun 2017			31 Dec 2016		
	Balance sheet exposure*	**Granted financial and guarantee liabilities**	**Total exposure**	**Balance sheet exposure***	**Granted financial and guarantee liabilities**	**Total exposure**
GROUP 10	367,997	177,904	545,901	216,836	85,968	302,804
GROUP 11	-	-	-	531,149	53,370	584,519
GROUP 12	-	-	-	187,415	323,310	510,725
Total	**3,893,580**	**3,449,344**	**7,342,924**	**4,360,718**	**3,163,228**	**7,523,946**

** Net of equity and other securities exposures*

Concentration of exposure in individual industries *

Sector of the economy according to the Polish Classification of Economic Activity (PKD)*	30 Jun 2017		31 Dec 2016	
	PLN'000	%	PLN'000	%
Wholesale trade, excluding trade in vehicles	4,524,182	18,05%	4,122,906	17.31%
Manufacture and supply of electricity, gas, steam, hot water and air conditioning	2,566,062	10,24%	2,526,268	10.61%
Financial services, excluding insurance and pension funds	2,424,193	9,67%	2,492,605	10.47%
Production of food and beverages	1,116,674	4,46%	1,169,614	4.91%
Retail trade, excluding retail trade in vehicles	1,016,435	4,06%	1,313,366	5.51%
Mining of metal ores	908,607	3,63%	1,064,982	4.47%
Production and processing of coke and petroleum products	896,672	3,58%	936,473	3.93%
Public administration and national defense, compulsory social security	756,301	3,02%	52,940	0.22%
Manufacture of motor vehicles, trailers and semi trailers, excluding motorcycles	679,688	2,71%	512,187	2.15%
Wholesale and retail trade in motor vehicles; motor vehicles repair	673,597	2,69%	582,693	2.45%
10 business sectors	**15,562,411**	**62,1%**	**14,774,034**	**62.0%**
Other sectors	**9,497,149**	**37,9%**	**9,043,335**	**38.0%**
Total	**25,059,560**	**100,0%**	**23,817,369**	**100.0%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks).*

1.2 Loan portfolio quality

The Group's exposures are classified in two portfolios depending on impairment risk: non-impaired and impaired loan portfolios. Depending on the significance of the exposure and risk management approach, the impaired loan portfolio is subdivided into loans individually evaluated for impairment and loans collectively evaluated for impairment.

Loans to customers by portfolio with/without recognized impairment

PLN'000	As of		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
Loans without recognized impairment, including:	19,663,737	18,790,328	873,409	4.6%
non-financial sector entities	17,836,652	17,099,400	737,252	4.3%
institutional clients*	11,298,013	10,719,577	578,436	5.4%
individual customers	6,538,639	6,379,823	158,816	2.5%
Loans with recognized impairment, including:	586,378	564,597	21,781	3.9%
non-financial sector entities	569,242	547,461	21,781	4.0%
institutional clients*	225,317	230,075	(4,758)	(2.1%)
individual customers	343,925	317,386	26,539	8.4%
Amounts due from matured transactions in derivative instruments	63,411	68,549	(5,138)	(7.5%)
Total gross loans to customers, including:	**20,313,526**	**19,423,474**	**890,052**	**4.6%**
non-financial sector entities	18,405,894	17,646,861	759,033	4.3%
institutional clients*	11,523,330	10,949,652	573,678	5.2%
individual customers	6,882,564	6,697,209	185,355	2.8%
Impairment, including:	**(595,480)**	**(563,421)**	**(32,059)**	**5.7%**
Amounts due from matured transactions in derivative instruments	(55,559)	(60,057)	4,498	(7.5%)
Total net amounts due from customers	**19,718,046**	**18,860,053**	**857,993**	**4.5%**
Impairment provisions coverage ratio**	**92.1%**	**89.2%**		
institutional clients*	89.7%	87.3%		
individual customers	92.5%	89.7%		
Non-performing loans ratio (NPL)	**2.9%**	**2.9%**		

* Institutional *clients include enterprises, the public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households.*

*** Including IBNR provision.*

In the first half of 2017, the ratio of impairment charges to impaired loans increased by 2.9 pp in relation to the end of 2016 to 92.1%.

As compared to the end of 2016, the share of non-performing loans remained stable, accounting for 2.9% of the portfolio of gross amounts receivable from customers as at the end of June 2017.

As at 30 June 2017, portfolio impairment charges stood at PLN 595 million, which represented an increase by PLN 32.1 million (i.e. 5.7%) vs the end of December 2016. Impairment charges on loans collectively evaluated for impairment increased by PLN 37.1 m (i.e. 16.3%) as compared to the end of 2016. With respect to the portfolio of loans individually evaluated for impairment, as at 30 June 2017, impairment charges decreased by PLN 3.2 million (i.e. 1.2%) versus 31 December 2016.

Impairment of the customer loan portfolio

PLN'000	As of		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
Impairment due to incurred but not reported (IBNR) losses	77,864	79,735	(1,871)	(2.3%)
Impairment of receivables	517,616	483,686	33,930	7.0%
classifiable (individual assessment)	252,438	255,605	(3,167)	(1.2%)
delinquency managed (portfolio assessment)	265,178	228,081	37,097	16.3%
Total impairment	**595,480**	**563,421**	**32,059**	**5.7%**
Impairment provision coverage ratio (on total receivables)	2.9%	2.9%		

The Management Board believes that the current level of impairment charges accurately reflects the observed growth in the balance of receivables and the expected portfolio impairment, considering the discounted projection of the cash flow associated with repayments.

1.3 Contingent liabilities

As at 30 June 2017, the Group's off-balance sheet exposure amounted to PLN 17.9 billion, marking an increase by PLN 0.9 billion (i.e. 5.9%) in relation to the end of 2016.

Contingent off-balance sheet liabilities granted

PLN'000	As of		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
Guarantees	2,340,637	2,131,868	208,769	9.8%
Import letters of credit issued	208,753	144,829	63,924	44.1%
Export letters of credit confirmed	707	1,023	(316)	(30.9%)
Credit commitments	13,969,452	13,331,401	638,051	4.8%
Securities issuance guarantees granted to other issuers	1,196,100	1,246,100	(50,000)	(4.0%)
Other	165,088	33,944	131,144	386.4%
Total	**17,880,737**	**16,889,165**	**991,572**	**5.9%**
Provisions for contingent liabilities granted	6,901	7,215	(314)	(4.4%)
Provisions coverage ratio	0.04%	0.04%		

As at 30 June 2017, the total value of accounts or assets of the Bank's borrowers pledged as collateral stood at PLN 3,629 million, compared to PLN 3,993 million on 31 December 2016.

At the end of the first half of 2017, the total value of guarantees and sureties provided by the Bank or its subsidiary to a single entity or its subsidiary did not exceed 10% of the Group's equity.

2. External funding

As at the end of June 2017, the Group's external funding from banks totaled PLN 2.6 billion and was PLN 0.3 billion (i.e. 12.9%) higher than reported at the end of December 2016. The increase relates mostly to term deposits.

The total funds from customers stood at PLN 32.4 billion at the end of the first half of 2017, which represented a decrease in relation to the deposit base at year-end, driven mainly by a lower balance of corporate deposits (PLN -2.2 billion or -13.8%) due to a seasonally high deposit base for such customers towards the end of the year. On the other hand, an upward trend continued in the retail deposit portfolio (an increase by PLN 0.5 billion or 4.9% in relation to the end of 2016).

Funding from banks

PLN'000	As of		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
Current accounts	1,220,680	1,466,809	(246,129)	(16.8%)
Term deposits	934,707	503,520	431,187	85.6%
Loans and advances received	68,496	128,026	(59,530)	(46.5%)

PLN'000	As of		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
Liabilities due to sold securities under repurchase agreements	385,315	212,372	172,943	81.4%
Other liabilities	255	15	240	1600.0%
Total funding from banks	**2,609,453**	**2,310,742**	**298,711**	**12.9%**

Funding from customers

PLN'000	As of		Change	
	30 Jun 2017	31 Dec 2016	PLN'000	%
Deposits from financial sector entities				
Current accounts	1,082,047	671,625	410,422	61.1%
Term deposits	3,957,394	4,024,501	(67,107)	(1.7%)
	5,039,441	**4,696,126**	**343,315**	**7.3%**
Deposits from non-financial sector entities				
Current accounts, including:	20,682,614	22,301,469	(1,618,855)	(7.3%)
corporate customers	9,505,637	10,895,348	(1,389,711)	(12.8%)
individual customers	8,755,223	8,280,082	475,141	5.7%
public sector units	2,421,754	3,126,039	(704,285)	(22.5%)
Term deposits, including:	6,510,720	6,821,412	(310,692)	(4.6%)
corporate customers	4,234,122	5,041,859	(807,737)	(16.0%)
individual customers	1,677,974	1,668,893	9,081	0.5%
public sector units	598,624	110,660	487,964	441.0%
	27,193,334	**29,122,881**	**(1,929,547)**	**(6.6%)**
				,
Total deposits	**32,232,775**	**33,819,007**	**(1,586,232)**	**(4.7%)**
Other liabilities				
Liabilities due to securities sold under repurchase agreements	-	-	-	-
Other liabilities, including:	179,287	117,504	61,783	52.6%
Cash collateral	143,451	80,622	62,829	77.9%
Other liabilities, total	**179,287**	**117,504**	**61,783**	**52.6%**
		,		
Total amounts due to customers	**32,412,062**	**33,936,511**	**(1,524,449)**	**(4.5%)**

3. Institutional Bank

3.1 Segment results summary

PLN'000	1st half of 2017	1st half of 2016	Change	
			PLN'000	%
Net interest income	233,289	220,919	12,370	5.6%
Net fee and commission income	146,807	133,022	13,785	10.4%
Dividend income	1,228	844	384	45.5%
Net income on trading financial instruments and revaluation	137,230	128,705	8,525	6.6%
Net gain on investment debt securities available-for-sale	15,861	20,925	(5,064)	(24.2%)
Net gain on investment equity instruments available-for-sale	3,377	27,430	(24,053)	(87.7%)
Net loss on hedge accounting	3,554	7,561	(4,007)	(53.0%)
Net other operating income	10,513	14,180	(3,667)	(25.9%)
Total income	**551,859**	**553,586**	**(1,727)**	**(0.3%)**
General administrative expenses and depreciation	(281,425)	(262,202)	(19,223)	7.3%
Profit on sale of other assets	30	87	(57)	(65.5%)
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	(11,759)	17,135	(28,894)	-
Share in net profits/(losses) of entities valued at equity method	265	78	187	239.7%
Tax on some financial institutions	(29,349)	(22,778)	(6,571)	28.8%
Profit before tax	**229,621**	**285,906**	**(56,285)**	**(19.7%)**

PLN'000	1st half of 2017	1st half of 2016	Change	
			PLN'000	%
Cost/Income	**51%**	**47%**		

The key highlights that impacted the gross profit of the Institutional Banking Segment in the first half of 2017 when compared to the corresponding period of 2016 were as follows:

- increase in net interest income as a result of the increased income in the customer business (PLN +36.6 million) owing to improved credit margin from institutional clients and a higher volume of receivables from financial sector entities. At the same time net interest income in the banking business increased owing to lower interest expense (lower deposits volume from banks). On the other hand interest income from debt securities held-for-trading and debt securities available-for-sale dropped by PLN -22.6 million and PLN -15.9 million, respectively;
- increase in net fee and commission income, mainly in the area of brokerage business reflecting increased activity of Dom Maklerski Banku Handlowego (Brokerage House of Bank Handlowy) and transactions on the stock market in the first half of 2017;
- increase in net income from trade financial instruments and revaluation due to a higher net gain from debt instruments;
- net income on debt investment securities, which in the first half of 2017 amounted to PLN 15.9 million, dropped by PLN 5.1 million (i.e. 24.2%);
- decrease in net gain on equity investment instruments available-for-sale due to the recognition in the Bank's statements of the settlement of the transaction of acquisition of Visa Europe Limited by Visa Inc. in the first half of 2016;
- decrease in the result on other operating income and expenses due to one-off events, i.e. reimbursement of VAT;
- decrease in operating costs due to, inter alia, lower staff expenses as a result of reduced headcount;
- increase in net impairment losses (net impairment losses of PLN 11.8 million in the first half of 2017 compared to a reversal of net impairment losses of PLN 17.1 million in the corresponding period of the previous year) mainly as a result of a reversal of provisions for individually assessed impaired loans in the first half of 2016.

3.2 Institutional Bank and the Capital Markets

3.2.1 Institutional Bank

As regards corporate and commercial banking, the Bank provides comprehensive financial services to the largest Polish companies and strategic enterprises with a strong growth potential as well as to the largest financial institutions and public sector entities.

At the end of first half of 2017, the number of institutional clients (including strategic, global and corporate banking clients) amounted to 6,200, a decline of 6% compared to the end of the first half of 2016, when the number of clients reached 6,600. As part of the Commercial Bank (small and medium businesses, large enterprises and the public sector) the Bank provided services to 3,700 clients as at the end of the first half of 2017 (which means a decrease of 11% as compared to 4,200 clients at the end of the first half of 2016).

What institutional banking clients have in common is their demand for advanced financial products and advisory related to financial services. In that area, the Bank provides coordination of the investment banking, treasury and cash management products offered, and prepares loan offers involving diverse forms of financing. The innovative, competitive and innovative financing structures offered by the Bank rely on the combination of its expertise and experience as well as on collaboration within the global Citigroup structure.

The following table presents the volumes of assets and liabilities split by segments in management reporting format.

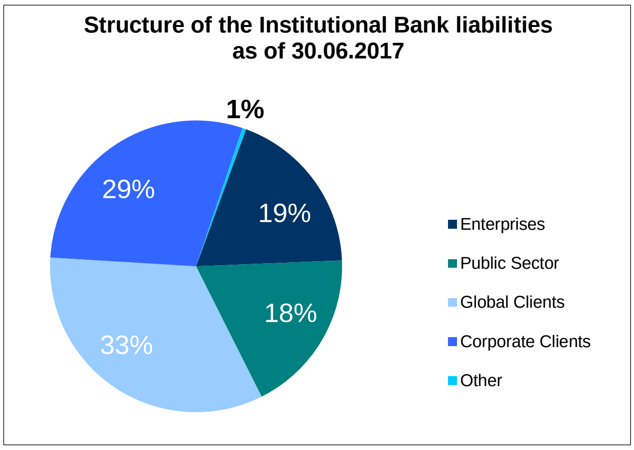
Assets

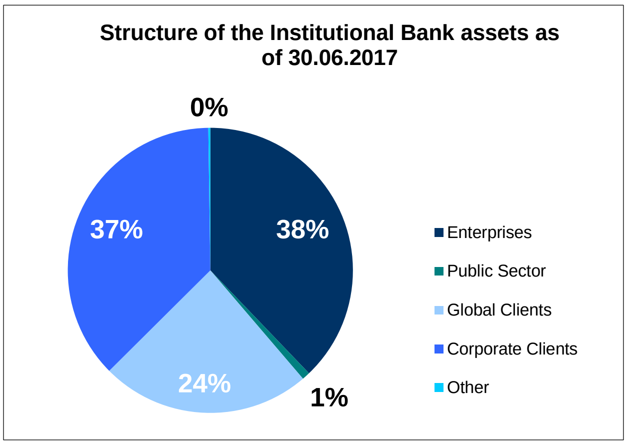
PLN million	30 Jun 2017	31 Dec 2016	30 Jun 2016	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises*, including:	4,841	4,669	4,881	172	4%	(40)	(1%)
SMEs	1,900	1,873	1,851	27	1%	49	3%
Large enterprises	2,941	2,796	3,030	145	5%	(89)	(3%)
Public Sector	116	92	138	24	26%	(22)	(16%)
Global Clients	3,046	2,389	2,684	657	28%	362	13%
Corporate Clients	4,762	5,016	3,689	(254)	(5%)	1,073	29%
Other**	29	7	48	22	314%	(19)	(40%)
Total Corporate Bank	**12,794**	**12,173**	**11,440**	**621**	**5%**	**1,354**	**12%**

Liabilities

PLN million	30 Jun 2017	31 Dec 2016	30 Jun 2016	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises*, including:	3,850	3,876	3,708	(26)	(1%)	142	4%
SMEs	2,250	2,428	2,329	(178)	(7%)	(79)	(3%)
Large enterprises	1,600	1,448	1,379	152	10%	221	16%
Public Sector	3,736	3,823	2,249	(87)	(2%)	1,487	66%
Global Clients	6,837	9,031	7,036	(2,194)	(24%)	(199)	(3%)
Corporate Clients	5,979	6,225	8,134	(246)	(4%)	(2,155)	(26%)
Other**	83	86	96	(3)	(3%)	(13)	(14%)
Total Corporate Bank	**20,485**	**23,041**	**21,223**	**(2,556)**	**(11%)**	**(738)**	**(3%)**

** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (Large companies).*
*** 'Other' includes, among others, clients under restructuring and clients of Handlowy Leasing Sp. z o.o. who are not clients of the Bank.*





Key transactions and successes of the Corporate and Commercial Bank in the first half of 2017:

- In the Corporate and the Global Clients segment:
  - Mandated lead arranger and underwriter (with financing amounting to PLN 2.7 billion) in the acquisition of 100% of shares in the largest convenience store chain in Poland by one of the largest private equity funds. The provision of financing included the syndication and distribution of part of the loan to other local and regional as well as Chinese banks;
  - Acting as the Mandated Lead Arranger in financing for a car industry investor, amounting to PLN 1.3 billion (with the Bank's share amounting to PLN 150 million). This project is of strategic significance from the point of view of the client's global business and at the same time strengthens its long-term cooperation with the Bank;
  - Acquisition of a USD 250 million in FX transactions – a client from the retail industry;
  - Signing an agreement on granting two-year financing amounting to PLN 400 million to an international retail trade group;
  - Successful tendering for the provision of financing for one of the largest retail chains in Poland and signing a loan agreement amounting to PLN 300 million;
  - Signing an umbrella agreement for trade products amounting to EUR 75 million;
  - Providing EUR 50 million financing to a client under the Emerging Market Champion program in connection with one of the largest investment projects outside Korea. The value of the entire investment is EUR 1.2 billion;
  - Signing a reverse factoring contract amounting to PLN 245 million with a leading player on the electricity and combined heat and power generation market in Poland;
  - Increasing working capital financing for an automotive distribution company by PLN 200 million;
  - Conducting a series of hedging transactions in the FX market for one of the world's leading manufacturers of copper and refined silver;

- Winning clients (cash and custody accounts) among the new investment funds managed by the largest fund management companies in the Polish market;
- Obtaining a mandate for a prepaid card and credit card handling program for one of the two leading manufacturers in the aerospace industry in Poland. This means the start of a relationship with a new client for the Citi Handlowy Global Subsidiaries Group;
- Obtaining a mandate for the provision of comprehensive banking services to a leading power generation group in Poland;
- Winning the tender for providing services to a branch of a renowned international insurer that entered the Polish market in 2017;

* In the first half of 2017, the Bank extended, *inter alia*, a revolving facility amounting to PLN 66.5 million for support services provided to land transport; a long-term loan for real estate financing amounting to PLN 36 million for the wholesale of fruit and vegetables; a revolving loan amounting to PLN 35 million for other financial services; a revolving loan amounting to PLN 30 million for retail sales of audiovisual equipment in specialized stores; a long-term loan amounting to PLN 32 million for the financing of machinery, equipment and vehicles for the manufacture of plastic packaging; a long-term loan amounting to PLN 25 million for the manufacture of plastic packaging.
* Acquisition of clients: the Commercial Banking segment acquired 104 new clients in the first half of 2017, including 29 Large Enterprises, 68 Small and Medium-Sized Enterprises, and 7 Public Sector entities.
* The Bank acquired 13 client relationships in the Strategic Clients and Global Clients segment.

3.2.2 Achievements of the Sub-Sector Financial Markets

* In the first half of 2017, the Bank won a contract in a competition of the Ministry of Finance to act as a Primary Dealer (PD) for the fifth time in a row. For several years, the Bank has been consistently involved in the promotion of the Polish market and has actively supported the implementation of the domestic debt issuance policy.
* According to the Rating&Market report by Fitch Ratings, at the end of June 2017, the Bank held a 15% market share as an arranger of bond and CoD issues for banks, ranking second on the market.
* The CitiFX Pulse online trading platform remains very popular with customers. About 80% of all foreign exchange transactions are executed through that platform.

  CitiFX Pulse is a state-of-the-art online currency exchange platform allowing customers to execute transactions on their own 24 hours per day. The tool is both innovative and functional. It supplies market information prior to a transaction, helps to analyse currency exposures after settlement and offers a wide range of other useful add-ons. The tool is continuously developed to cater to growing customer needs.
* In first half of 2017, the Bank was active in the market of debt securities, participating in the following transactions:
  - Syndicated issue of PLN 1.5 bn worth of bonds for the European Investment Bank, increasing a 5-year series to a total of PLN 3.25 bn;
  - Syndicated issue of PLN 900 m worth of bonds for the European Investment Bank, increasing a 10-year series to a total of PLN 2 bn;
  - Syndicated issue of PLN 1.16 bn worth of 3-year bonds for a company owned by State Treasury;
  - Syndicated issue of PLN 1.2 bn worth of 3-year bonds for a company owned by State Treasury;
  - Syndicated issue of PLN 120 m worth of 5-year bonds for a company owned by State Treasury.

3.2.3 Transaction services

The Bank is a leading provider of transactional banking services in Poland. The transactional banking offering includes the following products and services:

* cash management products: deposits and current accounts, liquidity management products and e-banking;
* card products;
* payment and receivables processing: Direct Debit and SpeedCollect;
* cash products;
* EU-oriented advisory services;
* trade finance products.

Other Transactional Banking events and business achievements in the first half of 2017:

Electronic banking

- The total number of transactions processed electronically by the CitiDirect and CitiDirect EB systems exceeded 12.5 million;
- The number of institutional clients who are active users of both systems amounted to more than 4,500;
- The number of clients with mobile access to both electronic banking systems amounted to 3,300; the number of operations conducted using mobile access exceeded 28,000.

In the first half of 2017, new changes and improvements were made to the electronic banking offering for the Bank's institutional clients:

- The functionality of the CitiDirect EB portal was enhanced by making available an improved Payments module, which enables more efficient creation and authorization of payments;
- The Bank consistently implemented the plan for the further commercialization of mobile solutions offered to institutional clients, including the promotion of the mobile version of its hardware token (MOBILE Pass);
- To cater for clients who were looking for greater flexibility in daily documentation exchanges, an electronic document exchange platform (eWnioski) has been piloted.

Deposits and current accounts

In the first half of 2017, a rise in balances in institutional client accounts was observed as a result of the activation of both existing and new clients (acquired in the fourth quarter of 2016). In the first half of 2017, average monthly balances maintained in current accounts with the Bank grew by 14% in relation to the corresponding period of 2016; growth in the balances maintained in the Polish Zloty accounts reached 28%.

Business Cards

In the Business Cards area, the Bank has started to migrate its clients to the new handling system, which has resulted in the availability of many new and unique functionalities related to Business Cards such as the clients' ability to generate and change PINs, transaction notifications, mobile access to transactions and also the ability to generate reports concerning the cards themselves and the transactions conducted using them.

By the end of 2017, all clients who use Business Cards will be migrated to the new system, which will enhance their satisfaction with the product as well as increasing both the number of transactions and cards issued.

Prepaid Cards

In the first half of 2017, the Bank reported an increase by 28% in the value of non-cash transactions executed with prepaid cards compared to the corresponding period of 2016.

Visa Business Debit Cards

In the first half of 2017, the Bank migrated Visa Business Debit Cards to a new platform that supports chip cards. Debit cards equipped with chips are more secure and the fact that they are handled using an advanced platform offers additional parameterization capabilities e.g. with respect to transaction monitoring and acceptance network availability.

International fund transfers

The Bank boasts a comprehensive and very extensive settlement offering in over 130 currencies throughout the world. Integrated settlement services include a compilation of remote access channels and product offerings in the area of international settlements. Responding to client needs, the Bank has extended the functionality of its multicurrency account product, adding the ability to receive foreign payments in exotic currencies. This is a unique solution in the Polish market.

Cash products

The Bank provides its clients with comprehensive cash management services. A vast majority of over-the-counter deposits are sealed, i.e., they are delivered to the Bank in sealed packages and counted without the client being present. The service may be provided nationwide at more than 1,200 cash centers. The share of cash in domestic transactions remains at a constant, very high level.

Additionally, the Bank provides open deposit services at more than 4,500 locations thanks to its partnership with Poczta Polska S.A.

Cash deposits may be made directly into the clients' accounts with the Bank. the Bank offers clients the option to make cash deposits into virtual accounts; as a result, the information necessary to identify deposits is included directly in the account number, which minimizes the risk of incorrect (unidentified) payments.

In order to meet the clients' needs, the Bank has introduced a solution designed to optimize the activities related to the preparation of sealed deposits, accessing the status of the sealed deposits made and the reporting of expected funds.

In addition to deposits, the Bank's clients also use cash withdrawals – both traditional over-the-counter withdrawals and sealed cash packages.

The Bank has expanded its partnership with Poczta Polska S.A. The Bank's offerings include cash withdrawals commissioned using the Bank's electronic banking system and effected at all branches of Poczta Polska S.A. nationwide as well as money orders, which are a convenient method of delivering cash directly to the recipient.

Direct debit

The Bank strengthened its position as the market leader with respect to the direct debit service and processed the biggest number of direct debits as the creditor's bank another year in a row. In line with its strategy, the Bank continues to digitize direct debit order handling by processing 66% of all approvals in digital form in the first half of the year.

SpeedCollect

SpeedCollect is a service that allows automated booking of receivables for creditors who are recipients of bulk payments. The virtual account functionality allows the creditor's important information to be encoded in the account number such as e.g. the number of the counterparty or the number of its own commercial unit that accounts for the revenue. An extension of the functionality of virtual accounts is SpeedCollect Plus, a service that allows not only to automatically identify and report the amounts credited to the account, but also to reconcile these transactions with additional information provided by the creditor, providing comprehensive information about the settlements. Owing to the flexibility of the service offered by the Bank, it can be adapted to cater to different needs of the Bank's clients – both companies with a high number of individual payments to the account and those with a small number of aggregated transactions, including receipts from intermediaries within the framework of settlements. The volume of SpeedCollect transactions remains equally high as in the same period of 2016.

EU-oriented advisory services

In the first half of 2017, the process of selecting EU-oriented advisory service providers was completed and the first five agreements with reputable consulting companies were signed. This will make the range of products offered to the Bank's clients even more comprehensive, giving them access to knowledge about a greater number of public subsidy programs.

Trade finance products

In the first half of 2017, Trade Finance recorded a significant increase in the level of assets, primarily due to the transactions conducted in the fourth quarter of 2016 and in the first quarter of 2017. The average level of assets in the first half of 2017 was 27% higher than in the same period of the previous year.

The Bank recorded a rapid increase in transaction volumes with respect to trade services products. The number of open import letters of credit grew by 14% in the first half of 2017 and of documentary collections – by 30% compared to the first half of 2016.

In June 2017, Trade Finance received the results of the Trade Services and Finance Product Customer Satisfaction Survey – a 6p.p. increase in satisfaction was achieved over the previous year.

Trade Finance continues the process of digitizing its products and transaction processing. From April 2017, Citi Handlowy clients are able to handle all tasks related to guarantees online – the guarantee is approved by way of an electronic signature secured using SecureMail. Owing to digitization, the entire process is accelerated – in contrast to the earlier solution (written guarantee prepared for the client in hard copy), an e-guarantee is delivered electronically via secure communication channels. The document is delivered to the beneficiary in real time, eliminating any additional costs associated with courier services.

3.2.4 Custody services

The Bank provides custody services under Polish regulations and in compliance with international standards for custody services offered to investors and intermediaries active on international securities markets. The Bank is able to meet the requirements of the largest and most demanding institutional clients.

Citi Handlowy has maintained its position of a market leader among depositary banks in Poland. The Bank provides custody services to domestic and foreign institutional investors and depositary bank services to domestic pension and investment funds.

As part of its statutory activities provided on the basis of a permit from the Securities and Exchange Commission (currently the Polish Financial Supervision Authority), the Bank operates securities accounts, clears securities trades, executes dividend and interest payments, performs asset portfolio valuations, provides individual reports, and arranges representation of clients at general shareholders' meetings of public companies. The Bank maintains omnibus accounts for authorized foreign entities. The Bank also provides the service of maintaining a registry of foreign securities, which includes mediation in clearing transactions of domestic clients in foreign markets.

In January 2017, the Bank handled first transactions within the framework of a new service related to operating accounts in the client's name with KDPW S.A. (National Depository for Securities), which involved the transfer of instructions received from the client to KDPW S.A. and *vice versa* – settlement confirmations and statements from the entity's accounts opened at KDPW S.A. for the Bank's client. The service is targeted at foreign depository and settlement institutions (financial entities with the ICSD status) and includes the handling of securities accounts and omnibus accounts of such entities.

In the reporting period the Bank maintained a leading position in the market for the clearing of transactions in securities executed for remote members of Giełda Papierów Wartościowych w Warszawie S.A. and BondSpot S.A. In addition, the

Bank was the leader in the clearing of transactions made by foreign institutional clients on the electronic platform for trading in debt securities operating under the name of Treasury BondSpot Poland, organized by BondSpot S.A.

As at 30 June 2017, the Bank maintained over 9,200 securities accounts.

At the same time, the Bank served as depositary for four open-end pension funds (OFE): Aviva OFE Aviva BZ WBK, Nationale-Nederlanden OFE, Pekao OFE, Nordea OFE; three voluntary pension funds: Nationale-Nederlanden DFE, DFE Pekao and Generali DFE, and also for the Orange Polska Occupational Pension Fund.

The Bank was a depositary for investment funds managed by the following fund management companies (TFI): BZ WBK TFI S.A., PKO TFI S.A., ESALIENS TFI S.A., Aviva Investors Poland TFI S.A. and Templeton Asset Management (Poland) TFI S.A.

The Bank continued its activities aimed at improving the legal regulations concerning the securities market. A representative of the Bank was the Chair of the Bureau of the Council of Depositary Banks at the Polish Bank Association ("Council") for the sixth consecutive term of office. During the reporting period, members of the Council continued to discuss the standards related to agreements on the performance of depositary duties and recommendations of good practice for depositaries arising from the amended Act on Investment Funds; these amendments have been related to the implementation of European Union directives (AIFMD and UCITS V) into Polish law.

The Council was actively involved in the evaluation of other draft legal acts related to operations of domestic custodian banks. Based on the Bank's resources, experience and competences, employees of the Bank in cooperation with the Polish Financial Supervision Authority, KDPW S.A. (National Depository for Securities), KDPW_CCP S.A. (National Depository for Securities – Central Counterparty) and the Warsaw Stock Exchange participated in consultations on the implementation of new solutions in the Polish capital market through working groups established at the Polish Bank Association and also through market working groups. Among other things, the Council actively participated in agreeing the plan for implementing in the market the projects related to adapting to the provisions of the Central Securities Depository Regulation (CSDR), and analyzed the opportunities for participating in new technology projects based on the distributed ledger concept.

3.2.5 Brokerage activities

The Group pursues brokerage activity on the capital market via the Dom Maklerski Banku Handlowego S.A. ("DMBH") brokerage house, which is wholly owned by the Bank.

In the first half of 2017, DMBH brokered session transactions representing 10.02% of equity turnover in the secondary market. The value of session transactions executed via DMBH in the equity market on the Warsaw Stock Exchange (WSE) amounted to PLN 25.04 billion and rose by 43.4% in relation to the corresponding period of the preceding year while trading on the WSE increased by 46.5%. A rapid growth of market turnover has been observed since November 2016 and thus the rate of increase in turnover has been slightly lower compared to the previous half of the year. The value of session transactions executed by the Company increased by 16.4% compared to the previous half of the year while the change in turnover on the WSE was 20%. This has been the best result since the third quarter of 2014. Nevertheless, significant changes occurred in the composition of turnover on the WSE, which primarily involve an increase in the share of algorithmic trading and high-volume operations executed by foreign brokers. The concentration is also increasing in the domestic market, where the largest brokerages owned by banking groups are increasingly competing in the relatively weaker institutional client segment. The situation in the market has also had a significant impact on pricing pressures, which in the current circumstances (i.e. prior to the entry into force of new MIFID II regulations) will increasingly affect the competitive landscape in the brokerage industry. Under these conditions, thanks to its market position, DMBH sees an opportunity to neutralize the probable adverse effects of the implementation of new regulations.

At the end of June 2017, DMBH was the Market Maker for the shares of 63 companies listed on the Warsaw Stock Exchange (including all covered by the WIG20 blue chip index). That represented 13.04% of all shares traded on the WSE main market.

In the DMBH consumer segment, the strategy of intensifying their cooperation with the Bank was pursued further in the first half of 2017. Once again, subscriptions for closed-end investment fund certificates and Treasury and corporate bond sales contributed to record-high results in that segment for DMBH.

DMBH maintained 13,400 investment accounts at the end of the first half of 2017, an increase of 16.5% compared to the corresponding period of 2016 and of 8% compared to the end of the previous year. The number of accounts increased primarily due to a steady growth in the number of brokerage service agreements concerning foreign market services performed via the CitiFX Stocks platform.

The first half of 2017 also saw considerable activity by consumers using the CitiFX Stocks transactional platform, which enables trading in shares and ETF instruments listed on major foreign exchanges as well as OTC FX instruments using financial leverage. Owing to advisory services, which are increasingly popular among CPC clients, revenues from fees in foreign markets supplemented the traditional revenue stream from client activity on the Warsaw Stock Exchange to a significant extent.

In the first half of this year, DMBH closed the following deals on the capital market:

- Cyfrowy Polsat – DMBH was the Book Runner in the sale of own shares by EBRD; transaction value was PLN 384 million (the transaction was settled in January 2017);
- Uniwheels AG – DMBH served as the Agent under the tender offer for 100% of shares in announced by Superior Industries International Germany AG. The transaction value amounted to PLN 2.7 billion (May 2017)
- Uniwheels AG – DMBH was an intermediary in the tender offer for a 7.7% stake in announced by Superior Industries International Germany AG (the transaction will be finally settled in August 2017)

Summarized financial data as of June 30, 2017

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2017	Total equity 30 Jun 2017	Net financial result for the period of 1 Jan – 30 Jun 2017
		%	PLN'000	PLN'000	PLN'000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	702,394	108,429	10,833

3.2.6 Leasing activities

In the fourth quarter of 2016, a decision was made on the purchase by the Bank of the remaining working lease portfolio from Handlowy Leasing. The transaction was executed at the end of the first quarter of 2017.

Leasing products continue to be offered by the Bank and are made available as part of the "open architecture", i.e. the Bank's partnership with organizations from outside its Group.

Summary financial data as of June 30, 2017

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2017	Total equity 30 Jun 2017	Net financial result for the period of 1 Jan – 30 Jun 2017
		%	PLN'000	PLN'000	PLN'000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	23,869	22,905	(203)

4. Consumer Bank

4.1 Segment results summary

PLN'000	1st half of 2017	1st half of 2016	Change	
			PLN'000	%
Net interest income	285,060	278,802	6,258	2.2%
Net fee and commission income	142,859	148,731	(5,872)	(3.9%)
Dividend income	7,720	6,490	1,230	19.0%
Net income on trading financial instruments and revaluation	15,701	16,531	(830)	(5.0%)
Net gain on equity investment instruments available-for-sale	-	66,477	(66,477)	(100.0%)
Net other operating income	(11,686)	(1,861)	(9,825)	527.9%
Total income	**439,654**	**515,170**	**(75,516)**	**(14.7%)**
General administrative expenses and depreciation	(351,496)	(352,086)	590	(0.2%)
Profit/loss on sale of non-financial assets	-	-	-	-
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	(30,947)	(31,627)	680	(2.2%)
Tax on some financial institutions	(10,762)	(8,734)	(2,028)	23.2%
Profit before tax	**46,449**	**122,723**	**(76,274)**	**(62.2%)**
Cost/Income	**80%**	**68%**		

The key highlights that impacted the gross profit of the Consumer Bank in the first half of 2017 when compared to the corresponding period of 2016 were as follows:

- increase in net interest income due to an increased asset products portfolio (+4.5% YoY) and a significant increase in deposit balances (+10.2% YoY) and a favorable change a favorable change in the composition of the portfolio of deposits (the share of current deposits increased while the share of term deposits decreased);
- decrease in net fee and commission income on credit insurance (due to the new group insurance regulations); partially offset by an increase in fee and commission income from investment products and the adjustment of the table of fees and commissions to the customer segmentation model in accordance with the Bank's strategy, i.e. preferential conditions exclusively for customers having a deep relationship with the Bank (no fee for account maintenance, preferential FX rates and investment advisory free of charge)
- decrease in net gain on capital investment instruments available-for-sale as a result of the settlement of the transaction of acquisition of Visa Europe Limited by Visa Inc.;
- decrease in expenses due to reduced headcount, while the saves were largely reinvented in technology and marketing;
- net impairment losses in the first half of 2017 remained almost unchanged (decreased by PLN 0.7 million), reflecting the high quality loan portfolio.

4.2 Selected business data

'000	1st half of 2017	1st half of 2016	Change	
Number of individual customers	687.2	679.5	7.7	1.1%
Number of current accounts, including:	459.9	456.2	3.7	0.8%
number of operating accounts*	97.7	93.8	3.8	4.1%
Number of operating accounts acquired in the period*	27.2	27.7	(0.5)	(1.9%)
Number of savings accounts	146.7	153.0	(6.2)	(4.1%)
Number of credit cards, including:	702.4	698.0	4.4	0.6%
Number of debit cards, including:	248.9	252.6	(3.7)	(1.5%)

** Change in the methodology in terms of current accounts and operating accounts in Q1'2017. Prior period was adjusted.*

Receivables from individual clients – management view

PLN '000	30.06. 2017	31.12.2016	30.06.2016	Change YTD		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	5,213,381	5,096,265	4,983,742	117,116	2.3%	229,639	4.6%
Credit cards	2,443,963	2,345,649	2,239,357	98,314	4.2%	204,606	9.1%
Cash loans	2,714,364	2,692,429	2,686,545	21,935	0.8%	27,819	1.0%
Other unsecured receivables	55,054	58,187	57,840	(3,133)	(5.6%)	(2,786)	(4.8%)
Mortgage loans	1,350,997	1,316,162	1,298,452	34,835	2.6%	52,545	4.0%
Total net individual clients' receivables	**6,564,378**	**6,412,427**	**6,282,194**	**151,951**	**2.4%**	**282,184**	**4.5%**

4.3 Business highlights

Bank accounts

- **Current accounts**

The number of personal accounts amounted to 459,000 at the end of the first half of 2017 (compared to 456,000 at the end of June 2016). Of those, 265,000 were Polish zloty accounts, and 194,000 were foreign currency accounts. The total account balance was more than PLN 5.8 billion compared to PLN 4.7 billion at the end of June 2016, which is an increase of 21%.

- **Savings accounts**

The number of savings accounts at the end of the first half of 2017 was 146,000 thousand. The total balance of funds accumulated in them amounted to almost PLN 3 billion compared to 153,000 savings accounts with a total balance of almost PLN 3.0 billion in the corresponding period of the previous year.

- **Changes to the range of products offered**

In March 2017, the revised Table of Fees and Charges took effect, which introduced, among others:

- uniform account maintenance fee waiver criteria for all clients from the Citi Priority segment;
- higher debit card fees and fees for transactions executed using the CitiPhone service or at Bank Branches;
- change in the Citigold personal account maintenance fee and the criteria that make account holders eligible for a fee waiver or reduction.

The Bank has continued to reward holders of new Citi Priority, Citigold and Citigold Private Client accounts by:

- promotional time deposit (Citi Priority) and "cash back" interest rates;
- gift cards to be used at shopping malls for new Citigold and Citigold Private Client clients;
- Citigold Client and Citi Private Client recommendation program.

Credit cards

At the end of the first half of 2017, there were 702,400 credit cards. The card portfolio has continued its upward trend since the beginning of 2017 while the number of closed card accounts has declined.

The debt balance on credit cards as at the end of the first half of 2017 amounted to PLN 2.4 billion, i.e. was 9.1% higher in relation to the corresponding period of the previous year. As a result, the Bank consolidated its leading position in the credit card market in terms of the value of credit facilities extended using credit cards, holding a market share of 25.7% according to the figures provided at the end of June 2017.

In the first half of 2017, the quantity of credit cards issued was 9% higher than in the same period of the previous year. High activation levels and transaction volumes were maintained among newly acquired clients. The structure of credit cards sold in the first half of 2017 was dominated by the Citi Simplicity card with a share of 90%.

Cash Loan and Cash Loan to Credit Card Account (ALOP)

Unsecured cash advances (cash advances and cash advances associated with credit card accounts) stood at PLN 2.7 billion as at end of the first half of 2017, which was an increase of 1% compared to the corresponding period of the previous year.

In the first half of 2017, total sales of unsecured cash advances, including cash advances for credit card holders, amounted to PLN 680 million.

Mortgage products

In the first half of 2017, the Bank continued its strategy of offering attractive products to clients from the Citigold Private Client, Citigold and Citi Priority segments. All new mortgage loans were granted to clients from these segments. Mortgage product sales in the first half of 2017 increased by 73% compared to the same period of 2016, while the balance of the mortgage loan portfolio at the end of the period discussed amounted to PLN 1.4 billion.

Investment and insurance products

At the end of the first half of 2017, the total value of investment products (including investment-type insurance products, net of bi-currency investments) purchased by consumers via the Bank was 19% higher than at the end of the same period of 2016 and 8% higher than the value at the end of 2016.

This increase was mainly in the area of investment funds and structured bonds, as well as the instruments accumulated in the accounts maintained by Dom Maklerski Banku Handlowego S.A.

Within the scope of cooperation with Dom Maklerski Banku Handlowego S.A., the Bank granted its clients access to 15 issues of closed-end investment fund certificates and to five public bond offerings.

As regards structured products, the Bank completed 51 structured note subscriptions in the first half of 2017. The securities were denominated in Polish zlotys, U.S. dollars, pounds sterling and euro.

As concerns open-end investment funds, in the first half of 2017 the Bank introduced six funds denominated in the Polish zloty into its range of products on offer, all of which were debt funds.

4.4 Online and Mobile Banking

Online Banking

In February 2017, a new version of the online platform for consumers and micro clients was released. The platform is based on responsive technology, i.e. it adapts to the device used by the client. Its modern design has been shaped by client comments, and its extensive functionality makes the use of other channels redundant. One of the many benefits for credit card holders is that they can manage their card limits themselves, divide transactions into installments and purchase insurance cover. An additional feature is the new documentation management module, which makes it possible to send correspondence, approve agreements and download certificates from home. In the following months, a refreshed module for managing the investment portfolio is to be deployed at Citibank Online, which will also be tailored to the client’s device.

The number of active Citibank Online users, i.e. those who logged in to the online or mobile banking service using their browser or used the Citi Mobile app at least once every 30 days amounted to 339,000 at the end of the second quarter of 2017, representing an increase of over 7,000 users in relation to the corresponding period of 2016. The share of active Citibank Online users in the total portfolio of the Bank’s clients amounted to 49.37% at the end of the second quarter of 2017, representing an increase of 1.37 p.p. compared to the second quarter of 2016.

At the same time, as at the end of the second quarter of 2017 digital users accounted for 72% of all clients who executed transactions, which translates to an increase of 2 p.p. compared to the second quarter of 2016.

In the second quarter of 2017, sales via online channels recorded significant growth compared to the second quarter of 2016. The number of credit cards sold via the online channel grew by 42% YoY.

Key improvements of basic functionalities are being steadily introduced based on feedback from clients and online banking users; recently, the transfer module as well as access to statements and the user profile management section have been improved.

Mobile banking

Owing to responsive technology, clients have access to all the features available in Citibank Online from any devices they use. Additionally, clients have access to a mobile app that includes features such as account balance snapshots without the need to log in, free-of-charge push notifications that keep clients informed about any changes to their accounts or cards, and also the fingerprint login functionality, which makes access to the application even easier and has been very much appreciated by clients.

At the end of the second quarter of 2017 the number of active mobile banking users, i.e. those who accessed mobile banking at least once every 30 days using the app or Citibank online using responsive technology, exceeded 112,000, an increase of ca. 44% compared to the second quarter of 2016.

The share of active users of mobile banking in the Citi Handlowy consumer portfolio stood at 16%, which represents an increase by 5 p.p. over the same period of 2016.

Indirect and direct sales

- ### Direct sales

The Universal Bankers retail distribution channel continues to rapidly grow its client portfolio through offering three basic products: credit cards, Citi Priority accounts and cash advances. The sales model of this channel is based on the presence of mobile relationship managers close to where their clients are – at shopping malls, gas stations and cinemas, and also during cultural and sports events. In June 2017, a series of ten outdoor events began, allowing clients to get acquainted with the Bank's range of products on offer. Mobile relationship managers are equipped with modern technological solutions enabling them to achieve high sales efficiency.

- ### Smart Banking Ecosystem

As concerns its branch network, Citi Handlowy bases its client acquisition strategy on different outlet types and formats that are tailored to individual target client groups.

For the wealthiest clients served by the prestigious Citigold Private Client segment, there are dedicated outlets or separate areas at the Warsaw, Kraków and Gdańsk branches. Affluent clients from the Citigold segment are served at the highest service quality level by their Personal Relationship Managers at Citigold Centers situated in nine major Polish cities. At the same time, the Bank has developed remote service processes, which allows it to offer to clients an ever wider range of transactions during phone conversations with the Relationship Manager or during meetings at any location, without the need to visit a physical branch. The Bank has also introduced new tools enabling the handling of Citigold products on iPads – without paper documents, using an electronic signature.

In the first half of 2017, the Bank was also present at the locations most frequented by its prospective clients, using stands and mobile sales points at popular shopping malls, cinemas, airports and gas stations. Citi Handlowy Relationship Managers also met clients during attractive marketing events and trade fairs. This strategy, involving banking products tailored to the needs of clients who travel frequently or spend their time shopping, will not change until the end of this year and will continue to be based on presence in popular locations that are most convenient for the Bank's clients who need its services.

Modern Smart branches are mostly located at the largest shopping malls and are available seven days a week during the opening hours of these malls; these are supported by Smart Mini mobile sales and service outlets – we are able to open new Smart Mini outlets at any location in Poland within hours.

The Smart Mini Format is a response to changing trends in consumer banking and in client behavior, which are reflected in the increasing use of remote access channels. Smart Mini is a model that ensures a mobile sales force, leveraging the short-term acquisition potential of different locations such as shopping malls, trade fairs and office complexes.

- ### Citigold and Citigold Private Client branches

As at the end of the first half of 2017, the network dedicated to serving affluent clients consisted of 11 branches, which were divided into three types: Smart HUB Gold, HUB Gold and Investment Center branches.

In the first half of 2017, two new client service points opened in Warsaw as a result of the continued implementation of the branch network development and transformation strategy. In January 2017, a HUB Gold branch opened in the Q22 office building at Al. Jana Pawła II. In February 2017, an Investment Center was launched at the Bank's Head Office at ul. Senatorska 16, which is targeted at clients who use Citigold Private Client services. The Investment Center moved from its previous location at Pl. Piłsudskiego 2 in Warsaw. The new investment projects completed made it possible to offer clients in Warsaw the highest service standards at modern branches located in the city center.

As concerns services for Citigold and Citigold Private Client segment clients, the direct service model through a Personal Relationship Manager has been maintained. This service model is supported by the use of remote channels such as phones and also tools such as iPads, which allow the processing of transactions both at Bank branches and in other locations.

- ### Number of branches and other points of sale / touch points at the end of the period

	30.06. 2017 (1)	31.12.2016 (2)	30.06.2016 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	**26**	**25**	**36**	**1**	**(10)**
HUB Gold	8	7	8	1	-
Smart HUB Gold**	2	2	2	-	-
Blue	-	-	9	-	(9)
Investment Center	1	1	2	-	(1)
Smart branch	14	14	14	-	-
Corporate branch	1	1	1	-	-
Other PoS/touch points:					
Smart Mini	3	3	-	-	3

** Branches classified according to a type of provided services into: HUB Gold (branches with separate CitiGold customer service zones), Smart HUB Gold (a separate part of the Smart dedicated to serve customers primarily from the segment Citi Priority), Blue (branches without separate CitiGold zones), Investment Center and Smart.*

5. Changes in information technology

In the first half of 2017, projects were implemented in the technology area that were aimed at making the Bank more competitive by providing the highest-quality services and products with broad support for innovative solutions, digitization and automation while optimizing costs at the same time. IT processes at the Bank operate according to international standards, as recognized in the first quarter of 2017 by the positive outcome of the ISO 20000 (IT service management), ISO 27001 (information security management) and ISO 22301 (business continuity) surveillance audits.

In the first half of 2017, the following solutions were implemented:

- **in the Corporate and Commercial Bank area:**
  - the implementation of a tool for the risk and sales areas that enables faster acquisition of data from various Bank areas – Business Intelligence Self-Service;
  - the implementation of the new PrintRoom, which allows for significant savings when printing statements;
  - the digitization and automation of processes related to bailiffs' seizures for the Processing Center in Olsztyn;
  - a new version of the system that enables the automatic processing of bailiffs' notices;
  - the implementation of integrated solutions for Transactional Banking – piloting a new product that will enable institutional clients to send invoices via the Bank and present them through electronic banking services (the service will be available at all banks that include it in their electronic banking services);
  - the implementation of a new platform for handling commercial cards for institutional clients – the new platform enabled new product features to be introduced, e.g. chip (EMV) cards and digital front-end systems (Citimanager/CCRS);
  - the integration of banking systems with the KIR (National Clearing House) system with respect to the processing of enforcement orders – a tool for processing requests for funds to be blocked in the client's account;
- **in the Consumer Bank area:**
  - the implementation of a new iPad sales automation app;
  - the launch of a new electronic banking version (Redesign+) for consumers;
  - the further development of the CitiMobile platform for consumers;
  - the migration of document forms to the new system in order to facilitate the management of changes in their content;
  - the project involving the inclusion of international brokerage products in WAARR calculations in the CitiPlanner application;
  - the implementation of automatic accrual of fixed and partial charges for deposit products;
  - the handling of PLN 500 banknotes in ATM deposit modules and teller cash dispensers at branches;
- **in the area of adapting the Bank's systems to ensure compliance with regulatory requirements:**
  - Standard Audit File for Tax – implementation was completed (process automation) as required by the Ministry of Finance;
  - a new version of the application that enables the transmission of additional tax information to the Ministry of Development and Finance;
  - functional changes in the Compliance area;
  - adjusting the Bank's systems to the Directive of the European Parliament and of the Council (EU) on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing;
- **in the area of the Bank's ICT infrastructure and information security:**
  - the introduction of further mechanisms to secure the Bank's online platforms;
  - the deployment of Wi-Fi infrastructure at more Bank locations;
  - the implementation of VoIP telephony at more Bank locations, including the upgrade of voice recording infrastructure for recording phone calls;

Pending (unfinished) initiatives and system modifications impacting the Bank's activity in the coming periods:

- **in the Corporate and Commercial Bank area:**
  - the implementation of a new platform for handling commercial cards for institutional clients – the migration of further commercial card types for institutional clients to the newly deployed platform;
  - the implementation of systems that support the work of the Financial Markets Sub-Sector in the derivatives area;
  - the implementation of solutions that will automate operational processes at the Bank;
  - the implementation of additional solutions that further digitize communications between the Bank and clients;

  - the migration to a new private branch exchange version in the Financial Markets Sub-Sector;
- **in the Consumer Bank area:**
  - further enhancements to the online banking platform (adding new functionalities and products);
  - the introduction of automatic accrual of CitiPhone service fees;
  - the launch of Android Pay for MasterCard debit and credit cards;
  - the introduction of instant KIR (National Clearing House) transfers for consumers;
  - the further optimization of SMART branches and the launch of alternative solutions such as SMART Mini;
  - automating and digitizing sales processes (straight through processing) in the area of consumer banking products – cards, loans, accounts;
- **in the area of adapting the Bank's systems to ensure compliance with regulatory requirements:**
  - the implementation of the Know Your Customer platform in order to improve the process for identifying clients;
  - adapting the Bank's IT systems to the new MIFID 2 regulation;
  - the implementation of IT solutions for MONREP reporting;
  - the implementation of IT solutions in order to comply with the Act of 9 March 2017 on the Exchange of Tax Information with other Countries (so-called CRS – Common Reporting Standards);
  - adapting the Bank's IT systems to regulations that concern counteracting the use of the financial sector for fiscal fraud;
  - adapting the Bank's IT systems to GDPR requirements;
- **in the area of the bank's ICT infrastructure and information security:**
  - the implementation of further new-generation security mechanisms in banking systems.

6. Equity investments of the Group

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In the first half of 2017, the Bank continued to pursue its earlier equity investment policy. The Bank managed the strategic investment portfolio in order to maximize profits in the long term, increase its market share, stimulate development of the Bank's relations and expand the Bank's offering; the Bank managed the divestment portfolio in order to optimize gains on equity transactions and minimize the risk inherent in such transactions.

6.1 Strategic investment portfolio

This portfolio includes companies running a business in the financial sector which contribute to the Bank's product offering, bring prestige to the Bank's operations and strengthen its competitive position in the Polish financial services market.

Strategic holdings also include infrastructure providers operating for the benefit of the financial sector. The Bank holds minority interest in such companies but they are of strategic importance to the Bank in view of their operations as well as their cooperation with the Bank.

The Bank intends to retain its strategic holdings in infrastructure providers and play an active role in defining the strategic directions of their development by exercising its right of vote. The overall aim of the Bank when exercising corporate governance over such companies is to maintain their development without affecting their business operations, which is taken advantage of by the Bank as well as other financial market participants.

6.2 Portfolio of investments intended for sale

Divestment holdings are entities in which the Bank's investment is not strategic. They include entities held directly and indirectly by the Bank, as well as special purpose vehicles used by the Bank to execute equity transactions. Some of these holdings are restructured exposures which originate from debt-to-equity conversion performed by the Bank.

The strategic aims for the Bank with regard to such companies is to gradually reduce the Group commitment. The assumption is that individual participations will be sold whenever market conditions are most favorable. The portfolio of companies intended for sale includes equity investments without a predetermined rate of return. The Bank is not planning any new equity investments which would be sold later. The portfolio of companies intended for sale might be increased with additional exposure taken over by the Bank as part of debt for capital swaps or acquired in the course of operating activities.

6.3 Special-purpose investment vehicles

As at 30 June 2017, the Group included two investment vehicles through which the Bank runs capital transactions. The activity of the companies was financed with the partner's returnable contributions to capital and with their net profits.

As the Bank continues to pursue a strategy of restricting the activity run through special-purpose investment vehicles, it is expected that further investment vehicles will be gradually sold or liquidated.

According to information available as at the date of preparation of the financial statements, the main financial data of the companies in question as at 30 June 2017 were as follows:

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2017	Total equity 30 Jun 2017	Net financial result for the period of 1 Jan – 30 Jun 2017
		%	PLN '000	PLN '000	PLN '000
Handlowy - Inwestycje Sp. z o.o.	Warszawa	100.00	11,154	11,100	265
Handlowy Investments S.A.	Luksemburg	100.00	18,494	18,085	71

7. Other information about the Group

7.1 Awards and honors

In the first half of 2017, the Bank, DMBH and the Leopold Kronenberg Foundation at Citi Handlowy received a number of prestigious titles and awards:

- The Citi Simplicity card was awarded **the Golden Banker award in the best credit card product category for the second time in a row.** In the eighth edition of the ranking compiled by the Bankier.pl website and the *Puls Biznesu* daily, Citi Handlowy was also singled out for best practices in the "security" category. The bank also found itself on the podium in the mortgage loan category.
- For the fourth time (and for the third time in a row), the Citi Handlowy CitiPhone Customer Service Department won an award in the "**Global Contact Center Top Performing Markets Award Program**" annual competition for 2016.
- During the annual gala held by the **Warsaw Stock Exchange**, Citi Handlowy won the "First Account Operator for a Global National Depository for Securities Participant" and "Market Making Leader at Treasury BondSpot Poland" awards. It also received a special award for particular contribution to the development of the Treasury BondSpot Poland market in 2016. Dom Maklerski Citi Handlowy was awarded for the ninth consecutive time for the **highest share in stock trading in the Main Market**.
- Dom Maklerski Citi Handlowy was also number one in the prestigious global ranking drawn up by the **Institutional Investor Magazine**. Each year, the Magazine asks international institutional investors for their opinions on the brokers' analytical activities. As a result, the Brokerage House analysis team was ranked first in CE3 (Poland, Hungary, Czech Republic) according to brokerage house clients. In the specialist category (the power generation sector), it came second.
- Citi Handlowy received the **"Ethical Firm" award from *Puls Biznesu***. In the 3rd edition of the daily's business competition, 15 companies were selected with the highest ethical standards that engage in comprehensive, systemic measures in order to build and strengthen an organizational culture based on values and that are the most active companies in Poland in this respect.
- **20 initiatives in the field of corporate social responsibility (CSR) launched by Citi in Poland were featured in this year's 15th edition of the Responsible Business Forum report.** "Responsible Business in Poland. Good Practices" is the only publication summarizing the most important projects in the field of CSR in Poland.
- Citi Handlowy received the "**Benefactor of the Year**" title in two categories: "New Technologies in Community Involvement" and "Staff Volunteering". The prize in the first category was awarded to the ArtSherlock app, which was created in partnership with the Communi Hereditate Foundation, the Leopold Kronenberg Foundation at Citi Handlowy and the Ministry of Culture and National Heritage. The Employee Volunteering Program coordinated by the Leopold Kronenberg Foundation at Citi Handlowy, which has operated since 2005, was voted the best program of its type.
- In the **Corporate Responsibility Ranking 2017** compiled by the *Gazeta Prawna* daily, Citi Handlowy was classified at the crystal level, i.e. among mature companies that are active in the CSR area.
- Citi Handlowy was also awarded the **White Leaf by the *Polityka* weekly**. This accolade goes to those companies which declare that they implement all of the most important management measures recommended by ISO 26000 and continuously improve their activities in this area to efficiently manage the impact of their business.

7.2 Social commitment of the Bank

The implementation of the Bank's corporate social responsibility strategy is coordinated by the **Leopold Kronenberg Foundation at Citi Handlowy** which supports initiatives undertaken for the public good on behalf of the Bank. In the first half of 2017, the Foundation's activities were focused on the programs conducted by it.

The implementation of these programs was as follows:

- **IT for She**: a new program designed to help talented female students of computer science enter the labor market. It has been implemented in collaboration with the "Perspectives" Education Foundation, which has supported higher education transformations related to internationalization for more than 10 years. The project involves the following partners: Cisco, Ericsson, Goldman Sachs, IGT, Intel and Roche – international companies present in the Polish market whose business has a clear technological component. In the first half of 2017, the Mentoring Program was launched in which, among others, four female mentors from Citi Service Center Poland participated. Preparations for holding the “Women in Tech Camp”, i.e. the largest IT-themed camp for girls in Europe, also started.

- **Innovation and Startup Academy**: a new program whose purpose is to design a platform for opinion leaders and policymakers in order to ensure legislative support for startups in Polish law as well as to create a platform for collaboration between young technology companies (startups) and large enterprises. The project has been implemented in cooperation with the Coalition for Polish Innovation, Academic Entrepreneurship Incubators and the Startup Poland Foundation. In the first half of 2017, the Fintech, Blockchain and Cloud Services task force started its work within the framework of the program under the auspices of the Coalition for Polish Innovation; the task force is to develop legislative recommendations for central government institutions. Two managers from Citi Handlowy are involved in its work.
- **Startup Days**: a new program that involves a series of meetings targeted at university students from large academic centers. Project teams include people with different competences and interests, e.g. students of humanities are combined with those who study technical subjects. The program is implemented in partnership with various entities that support startups. Under the program, a series of meetings for students and startups has been launched to support work on designing efficient business models for the startups’ ventures. During the first meeting, special guest was Don Callahan (Head of Operations & Technology, Citi); three mentors from the Citi Service Center and four mentors from Citi Handlowy participated as well. Moreover, the second edition of Startup Weekend Kids was held, during which 50 youths aged from 13 to 18 developed business models for their ideas with the help of experienced mentors.
- **Research program**: a new program whose purpose is to build the Foundation’s image as a think tank with extensive knowledge. In the first half of 2017, studies were conducted under the program that concerned university students’ expectations for their first jobs and the employers’ expectations of their employees.
- The **Citi Handlowy Emerging Market Champions Award** was established to promote companies which have successfully expanded into international markets. The project includes a survey of the business climate in Poland and the global potential of domestic companies. In June 2017, the first stage of the competition was completed; on the basis of the vote held by members of the Council of Experts (a closed group of 300 representatives of academia and business), 15 companies were selected – 7 domestic and 8 foreign ones – which will be presented to the Chapter. Work has also started to draft this year’s survey questionnaire focusing on the sales strategies of Polish companies in international markets.
- **Ethics in Business**: a new program aimed at studying trust in financial institutions and their perception by consumers and also diagnosing corporate governance frameworks in place as well as promoting good market practices and standards in this area. In the first half of 2017, preparatory work aimed at launching the program was performed.
- The **Aleksander Gieysztor Award** is the most prestigious award given annually to institutions or individuals in recognition of their efforts for the protection of Polish cultural heritage. This year, Elżbieta Penderecka and Krzysztof Penderecki won the award, which was held for the 18th time. The Chapter, which was chaired by Professor Andrzej Rottermund, recognized their support to talented musicians and also their activities aimed at nurturing music education and popularizing classical music heritage in Poland.
- **Recovery of Polish Art/ArtSherlock**: a program which aspires to recover the cultural heritage lost by Poland during and in the wake of WWII. In the first half of 2017, measures under the program were underway and the ArtSherlock app launched in 2016 continued to function. It is an original project of the Communi Hereditate Foundation implemented in cooperation with the Ministry of Culture and National Heritage and the Leopold Kronenberg Foundation at Citi Handlowy. This is the first solution of its kind, which will completely revolutionize the identification of works of art that were plundered during wars. The app enables the automatic identification of artworks solely on the basis of a photograph taken with a mobile phone. The app has been installed on over 7,000 smartphones in more than 30 countries in the world.
- **Roots** is a program under which the Foundation promotes the history of the Bank and the profile and achievements of its founders, the Kronenberg family. In the first half of 2017, the measures initiated in previous years were continued. Since 2014, the digital archive created within the framework of the “Roots” program can be used for the Foundation’s and the Bank’s internal purposes. The archive contains more than 31,000 pages of scanned documents and pictures concerning the activities of Bank Handlowy and of the Kronenberg family. These materials are used for promotional purposes on special occasions – anniversaries related to the Bank and to Leopold Kronenberg.
- **Employee Volunteering Program of Citi Handlowy** aims to promote the social commitment of present and former employees of the Bank. In 2017, the 12th edition of the Citi Global Community Day was held. During the Community Day, 230 projects were implemented. Citi volunteers and their friends and acquaintances were engaged nearly 3,356 times, helping more than 28,000 people.
- The **Grant Program** is a competition through which the Leopold Kronenberg Foundation at Citi Handlowy supports the most valuable projects conceived by not-for-profit organizations in the area of education and local development. In the first half of 2017, one grant was allocated.

Economic education programs co-financed by the Leopold Kronenberg Foundation at Citi Handlowy and the Citi Foundation

- **“Business Startup” Program**: a two-part program which supports young entrepreneurs (providing assistance in opening and running a business and support for existing companies). It is implemented in cooperation with

Academic Incubators of Entrepreneurship. The objective of the project is to promote entrepreneurship among students and to help them make their business visions come true. In the first half of 2017, work on previous edition of the program was completed; preparations to launch the next one are underway.

- **Micro Company of the Year 2017** is a competition for owners of microbusinesses to promote the philosophy of micro-entrepreneurship. The idea of the competition is to support entrepreneurship, encourage people to set up their own businesses, and recognize and promote the best among them as examples of effective business activities. In the first half of 2017, the next edition of the competition was prepared.
- **My Finances** is the largest financial education program for young people in Poland. The program is sponsored by the Leopold Kronenberg Foundation and the National Bank of Poland, and conducted by the Junior Achievement Foundation Poland (Fundacja Młodzieżowej Przedsiębiorczości). In the first half of 2017, work continued on the edition of the program launched at the beginning of the 2016–2017 school year.
- **Be Entrepreneurial** is a financial education program addressed to upper secondary school students. It is carried out in collaboration with the Junior Achievement Foundation Poland (Fundacja Młodzieżowej Przedsiębiorczości). Its objective is to provide learning opportunities and teach students the attitudes and skills in the area of broadly defined entrepreneurship by founding and running businesses in the legal form of a general partnership. In the first half of 2017, work continued on the edition of the program launched at the beginning of the 2016–2017 school year.
- **Week for Saving**: an educational action in the media which promotes savings and the skills of rationally managing personal finances among Poles. It is implemented together with the Think! Foundation. The goal of the action is to achieve systemic changes in the education area focused on the management of personal finances. In the first half of 2017, work on preparing the next edition of the campaign was underway.
- Business in Women's Hands is a program addressed to women who want to start their own business, carried out in cooperation with the Women Entrepreneurship Foundation. By taking advantage of lectures, training sessions and individual work with mentors, each participant has a chance to successfully launch a business. The objective of the program is to create a cluster of women's companies in Warsaw. In the first half of 2017, a conference of the Women's Entrepreneurship Network (500 participants) was held.

7.3 Cultural patronage and sponsorship

- In June 2017, Citi Handlowy supported the **7th European Financial Congress in Sopot** as a partner; the EFC is an annual meeting of representatives of the European finance sector, the world of politics, and economic experts. The subject of this year's edition was "Capital, Taxes and International Solidarity in the 21st Century".
- In 2017, Citi Handlowy supported the development of golf in Poland as a partner of the **Polish Golf Association**. It is also the Title Sponsor of the **Citi Handlowy Lexus Business Cup**, a tennis tournament that takes place in six Polish cities from May to September 2017.

VI. Key risk factors relating to the operations of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Key risk factors and threats relating to the Group's environment

1.1 Economy and macroeconomic environment

The pace of monetary policy tightening in the United States may have a considerable impact on international financial markets. In the scenario of rapid interest rate rises in the U.S., outflows of foreign capital from the emerging markets could be triggered. As a result, the domestic currency would weaken and interest on both Treasury and corporate debt would increase.

The United Kingdom's exit from the European Union will remain the major source of uncertainty in the coming years, and this may affect risk aversion levels as well as the economic performance of not just the UK but also of other Member States. The changes currently taking place in the EU could result in reducing the pool of EU funds available to Poland and other Central European countries in the next EU financial perspective. This risk could be exacerbated if governments of other European countries also start to ponder the decision to leave the European Union. At the same time, risks to global trade could result from the potentially heightened protectionist sentiment in major economies, especially the United States in their trade policy vis-à-vis China and NAFTA countries.

Any intensification of global geopolitical tensions may also threaten the stability of financial markets and hinder the influx of foreign capital into Poland. Conflicts in Syria, Ukraine or Afghanistan flaring up, and also greater tension between the U.S. and North Korea could result in risk aversion and weaken the Polish zloty, negatively affecting both foreign investment in Poland and global economic growth.

Uncertainty concerning changes in domestic economic policy and the legal environment may contribute to Polish corporations putting off new investment projects. In the longer term, this could have a negative impact on the potential of the Polish economy.

1.2 Regulatory risk

Any changes in the economic policies or in the legal system could have a considerable effect on the Group's financial condition. In terms of banking sector regulations, a particularly important role is played by acts and the related implementing regulations, including regulations of the Minister of Development and Finance, resolutions of the Management Board of the National Bank of Poland ("NBP") and orders of the President of NBP, and resolutions of the Polish Financial Supervision Authority ("PFSA") as well as regulatory recommendations and the laws enacted by the European Union.

Among the aforementioned legal and supervisory regulations the most important include:

- Banking Act of 29 August 1997;
- Act of 29 August 1997 on the National Bank of Poland;
- Civil Code Act of 23 April 1964;
- Commercial Companies Code Act of 15 September 2000;
- Labor Code Act of 26 June 1974;
- Personal Data Protection Act of 29 August 1997;
- Act of 16 February 2007 on Protection of Competition and Consumers;
- Act of 23 August 2007 on Counteracting Unfair Market Practices;
- Act of 16 November 2000 on Combating Money Laundering and Terrorist Financing;
- Act of 29 July 2001 on Consumer Credit;
- Act of 12 May 2011 on Consumer Credit;
- Act of 23 March 2017 on Mortgage Credit and on the Supervision of Mortgage Credit Intermediaries and Agents;
- Act of 19 August 2011 on Payment Services;
- Act of 30 May 2014 on Consumer Rights;
- Act of 29 July 2005 on Trading in Financial Instruments;
- Act of 27 May 2004 on Investment Funds and the Management of Alternative Investment Funds;
- Act of 28 August 1997 on Organization and Operation of Pension Funds;
- Act of 29 July 2005 on Public Offering and on the Terms of Introducing Financial Instruments into Organized Trading and on Public Companies;
- Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Restructuring;
- Act of 28 February 2003 – Bankruptcy Law, including so-called consumer bankruptcy;
- Act of 15 May 2015 – Restructuring Law;
- Act of 11 September 2015 on Insurance and Reinsurance Activity;
- Act of 5 August 2015 on the Handling of Complaints by Financial Market Participants and on the Financial Ombudsman;
- Act of 5 August 2015 on the Macro-Prudential Oversight of the Financial System and Crisis Management in the Financial System;
- Act of 21 July 2006 on Financial Market Supervision;
- Act of 15 January 2015 on Bonds;
- Act of 9 October 2015 on Performing the Agreement between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA;
- Act of 15 January 2016 on the Tax on Certain Financial Institutions;
- Regulation of the Minister of Development and Finance of 6 March 2017 concerning the risk management system and internal control system, remuneration policy and the detailed procedure for estimating internal capital at banks;
- Regulation No 648/2012 of the European Parliament and of the Council of 4 July 2012 and European Commission implementing regulations (so-called "EMIR");
- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012;
- Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC – so-called MAR (Market Abuse Regulation);
- Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC;

- Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012;
- Commission Delegated Regulation (EU) 2016/438 of 17 December 2015 supplementing Directive 2009/65/EC of the European Parliament and of the Council with regard to obligations of depositaries;
- Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision;
- Recommendation A of the Polish Financial Supervision Authority on the management of risks related to derivative transactions conducted by banks;
- Recommendation T of the Polish Financial Supervision Authority on good management practice concerning the risk of retail credit exposures;
- Recommendation I of the Polish Financial Supervision Authority on the management of foreign exchange risk at banks and rules of executing transactions subject to foreign exchange risk by banks;
- Recommendation M of the Polish Financial Supervision Authority on the management of operational risk at banks;
- Recommendation U on good practices in bancassurance;
- Recommendation D on the management of IT areas and ICT environment security at banks. The recommendation has replaced the previous Recommendation D. As compared to the previous version of Recommendation D, provisions have been introduced, *inter alia*, that concern the management of data (including data quality), principles of co-operation between business and technology areas, the management information system for IT, ICT security and cloud computing. Supervisory expectations have also been updated and clarified as regards strategic planning in the IT area and security of the ICT environment, implementation of new and modification of existing IT solutions, co-operation with third-party service providers and management of risks connected with ICT environment security;
- Recommendation P on the management of the banks' financial liquidity risk;
- Recommendation W on the management of the banks' risk of models;
- Recommendation C concerning concentration risk management;
- Resolution of the Polish Financial Supervisory Authority No. 584/2015 of 17 November 2015 on the issuance of a Recommendation concerning the security of online payment transactions executed by banks, domestic payment institutions, domestic electronic money institutions and credit unions;
- Guidelines of the Polish Financial Supervision Authority of 16 December 2014 on the management of IT and ICT security areas at pension fund management companies, insurance and reinsurance companies, investment fund management companies, entities providing capital market infrastructure, and investment firms. The guidelines are a version of Recommendation D on the management of IT and ICT security areas at banks adapted to the needs of individual sectors. The PFSA expects appropriate measures aimed at implementing the standards set forth in the guidelines to be implemented by the entities subject to supervision no later than by 31 December 2016. These guidelines apply to the Bank in the scope of Brokerage Services Management Unit operations as well as to the DMBH brokerage house;
- Guidelines of the Polish Financial Supervision Authority of 24 May 2016 concerning the provision of brokerage services on the OTC derivatives market. The guidelines are a supervisory interpretation of the legal acts setting forth the rules governing the sale of OTC derivatives. The purpose of the guidelines is to present recommended solutions with respect to OTC derivatives, including without limitation with regard to overseeing the sale of these products, conducting advertising, promotional and information activities, training sales staff, examining the suitability of products and the inclusion of certain types of clauses in their documentation. The guidelines apply to the Bank as well as to Dom Maklerski Banku Handlowego S.A. (brokerage house) as of 30 September 2016;
- Corporate Governance Principles for Supervised Institutions issued in PFSA Resolution of 22 July 2014. It is a set of principles that define the internal and external relations of institutions supervised by the PFSA, including investor relations, client relationships, their organization, internal governance as well as the key systems and internal functions, statutory bodies and their cooperation. The Principles apply to the Bank as well as to the DMBH brokerage house;

Legal and supervisory regulations which may impact the operations of the Bank in the coming periods:

- On 23 December 2015, Regulation of the European Parliament and of the Council (EU) 2015/2365 of 25 November 2015 on the transparency of transactions financed with securities and re-use and amending Regulation (EU) No 648/2012 was published in the Official Journal of the EU (OJ L 337/1). The aim of the regulation is, *inter alia*, to increase the transparency of transactions financed with securities. It imposes a duty, among others, on counterparties (this term includes banks), investment companies (UCITS) and their managers, AIFM, to report to a trade repository any repo, sell/buy-back, securities lending transactions. The Regulation entered into force on 12 January 2016 but the obligation to report the indicated transactions will depend on the date of entry into force of the relevant implementing rules;
- On 12 June 2014, the MiFID II (Directive) and MiFIR (Regulation) (jointly “MiFID II”) were published in the Official Journal of the EU. The MiFID II regulatory package comes into force in January 2018 (as a result of the original effective date being shifted) subject to any further changes in laws or delays in the implementation to the legal system. MiFID II will replace the MiFID I package currently in force (which includes MiFID 1 Directive, MiFID 2 Directive and MiFID Regulation). The MiFID II package also includes other implementing acts such as implementing

and delegated regulations. The new regulations aim to build a more secure, reliable, transparent and more responsible financial system. MiFID II, in particular, introduces changes to the structure of the organization and regulation of markets by introducing, where it is considered appropriate, among others, organized trading facilities (OTF) and multilateral trading facilities (MTF), greatly expands the existing principle of transparency in financial market transactions (transparency before and post-trade), strengthens the existing powers of EU and local regulators (including but not limited to EBA, ESMA, PFSA), including the regulators' powers of intervention as to the prohibition and restriction of certain activities in the financial market. An important part of the MiFID II package are the regulatory measures aimed at strengthening the protection of investors/clients through the introduction of organizational improvements in the protection of client assets and the area of product management (product governance), increasing the range of products covered by MiFID regulations, changes in the classification of clients, further strengthening the existing regulations regarding incentives (monetary and non-monetary benefits accepted or handed over in connection with the service provided), management of conflicts of interest, and a number of other measures to ensure compliance with the rules of fairness and professionalism in services in the financial market;

- Draft Act amending the Act on Trading in Financial Instruments and Certain Other Acts of 3 March 2017, implementing the changes resulting from MiFID II and MiFIR into the Polish legal system;
- On 9 December 2014, Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) was published in the Official Journal of the European Union; its purpose is to enhance the protection for individual investors who purchase such products. The Regulation will enter into force on 1 January 2018. The Regulation requires entities that create and sell PRIIPs (including the Bank and Dom Maklerski Banku Handlowego S.A.) to meet a number of new obligations, primarily with respect to the provision of certain information to investors;
- On 29 June 2016, Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 was published in the Official Journal of the European Union; the Regulation applies to the drawing up of benchmarks, the contribution of input data for benchmarks and the use of benchmarks. Provisions of the Regulation stipulate, without limitation, the rules governing the management and control exercised by benchmark administrators, requirements concerning the conduct of contributors of input data, transparency and the protection of consumers and the provision of licenses and information on benchmarks to benchmark users. Provisions of the Regulation apply to the Bank, which is a contributor of input data to benchmarks as well as a benchmark user for the purposes of financial instruments and financial contracts. The Regulation will come into force on 1 January 2018;
- On 23 December 2015, Directive of the European Parliament and of the Council (EU) 2015/2366 of 25 November 2015 on payment services in the internal market amending Directives 2002/65/EC, 2009/110/EC, 2013/36/EU and Regulation (EU) No 1093/2010 and repealing Directive 2007/64/EC (so-called PSD 2) was published in the Official Journal of the European Union; its aim is to eliminate regulatory gaps in the field of payment services, to provide greater legal clarity and consistent application of the framework legislation throughout the European Union, to ensure a level playing field for existing and new market participants, allowing the dissemination of new payment methods among a wide range of users, to ensure a high level of consumer protection and, as a result, to improve the efficiency of the entire payment system and harmonize the market in the area of payment services. The deadline for transposing the directive into national law expires on 13 January 2018;
- On 4 May 2016, Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC was published in the Official Journal of the European Union. The Regulation entered into force on 25 May 2016 and will apply from 25 May 2018. The two-year transition period is meant to enable the full implementation of the requirements set forth in the Regulation with regard to the processing of personal data. The Regulation will be directly applicable in all Member States and will replace the current Directive 95/46/EC and national laws governing the protection of personal data, including the Polish Personal Data Protection Act of 29 August 1997. Under the Regulation, Member States will be authorized to adopt specific rules for particular areas to clarify the rules for the protection of personal data arising from the Regulation;
- Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (CSDR). The Regulation imposes an obligation on entities that operate securities accounts to offer individual accounts with securities depositories to clients. The date on which this obligation enters into force will depend on when Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities) obtains the relevant authorization as a securities depository;
- Draft Recommendation Z of the Polish Financial Supervision Authority concerning internal governance rules in banks. In the opinion of the Authority, the draft addresses a key issue from the point of view of sound and prudent management of banks, which is crucial for the proper functioning of the banking sector. The Recommendation contains provisions on the banks' business conduct, but also on the internal governing bodies of the bank, its employees as well as shareholders and stakeholders, especially clients of the banks and on building relationships in terms of:
  - Risk management – both the organization of the risk management system and the various essential elements of the risk management process;
  - Management of conflicts of interest, not only at the level of members of the Management Board and the Supervisory Board, but also other employees of the bank;
  - Internal relations and external relations with clients – among others by defining the bank's applicable remuneration systems for all employees, codes of ethics or principles for introducing new banking products;
  - Relations with shareholders – including dividend policy, consistent with the strategy of the Bank's operations.

2. Key risk factors and threats relating to the Group and its operations

2.1 Liquidity risk

Maturity mismatches between loans and the underlying deposits are a typical aspect of banking activity, and these occur at the Bank as well. They could give rise to potential problems with current liquidity were there to be a build-up of large payments to clients. Management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is the responsibility of the Assets and Liabilities Committee (ALCO), which maps out a strategy later implemented by the Financial Markets Sub-Sector.

The main task of the Assets and Liabilities Committee is the management of the balance sheet structure to increase its profitability, defining admissible limits of financial risk undertaken in various areas, coordination of the pricing policy in terms of interest rates and making decisions on transfer pricing in the Bank.

As part of liquidity management activities, the Assets and Liabilities Committee of the Bank is responsible for the development and implementation of a uniform policy of liquidity risk management at the Bank, approves annual liquidity plans, plans for funding the Bank's assets and the Bank's liquidity limits, as well as liquidity contingency action plans. It also determines threshold values (limits) for various sources of funding and conducts regular reviews of liquidity risk reports.

The Bank's deposit base is stable and diversified. Furthermore, the Bank has a large portfolio of liquid securities, good access to interbank funding and a high level of own funds. Liquidity risk in the first half of 2017 was low.

2.2 Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its clients and on its own account, and holds open foreign exchange positions within established limits. Therefore the Bank is exposed to foreign exchange risk. Control over foreign exchange risk is the responsibility of the Market Risk Department, which cooperates in this area with the Financial Markets Sub-Sector responsible for managing liquidity and foreign exchange position. Market risk of the Bank's proprietary positions was low in the first half of 2017.

2.3 Interest rate risk

As is the case with other banks operating in Poland, the Bank is exposed to a risk of mismatch between the timing of changes in interest rates on its assets and on the underlying liabilities (revaluation gap risk) as well as the risk that debt securities and interest rate based derivatives may be sensitive to market interest rate fluctuations (pricing risk). In terms of revaluation gap risk, interest rate risk may arise where it is impossible to offset the fall in income caused by lower rates of interest on loans through a corresponding reduction in the rates of interest paid to depositors. Conversely, this risk also arises in situations where a rise in interest rates on deposits cannot be offset by a corresponding rise in interest rates on loans. In respect of the pricing risk, interest rate risk may arise when changes in market rates have an adverse effect on the valuation of instruments in the trading book and, consequently, on the Bank's financial result, or on the valuation of the portfolio of securities available for sale and, consequently, on the Bank's own funds. The management of interest rate risk is a responsibility of the Assets and Liabilities Committee of the Bank which, among others, determines the Bank's interest rate risk pricing policy. The interest rate risk level in the first half of 2017 was medium to high both for the trading book and the banking book.

2.4 Credit risk and counterparty risk

Credit risk and counterparty credit risk represent a potential loss resulting from a client's inability to pay its contractual obligations due to insolvency or other reasons, taking account of collateral, unfunded credit protection and other loss mitigating agreements. In the case of counterparty risk, the Bank's exposure is variable over time. If the transaction is not settled in time, the Bank runs an additional risk of a change in contract value. The Bank sets limits for the credit risk and counterparty risk it takes at the level of exposure to a given entity or a group of related entities. In addition, portfolio limits are introduced to support the process of management and ongoing monitoring of the credit portfolio. The process of active portfolio quality management includes assigning appropriate ratings to exposures and their internal classification as well as recognizing impairment and taking remedial and debt collection measures. For credit exposures, the Bank makes impairment write-downs as required by law. The Bank's Management Board is of the opinion that the current level of impairment write-downs is adequate. As the possibility of change in the external environment or other circumstances that could adversely impact the financial condition of the Bank's clients always exists, there is no certainty that some future need for making impairment write-downs appropriate to the existing asset portfolio will not have an adverse effect on the Bank's financial position or that the impairment write-downs made and collateral established will prove sufficient to absorb the possible losses arising out of lending.

2.5 Operational risk

Operational risk is the risk of possible loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes reputation risk, the risk associated with operational events, business practices and market conduct as well as legal risk and compliance risk. Operational risk includes technological and technical risks, outsourcing risks, fraud and money laundering risks, information security risks, external events risks (continuity of business), tax and accounting risks, product risks, legal risks, model risks, human resources risks, concertation risks and misconduct risks. It also includes reputation risk, the risk associated with operational events, business practices and market conduct as well as legal risk. Operational risk does not include strategic risk or the risk of potential loss caused by decisions to accept credit risk, market risk, liquidity risk or insurance business risk.

Operational risk includes the following difficult-to-measure risks that are considered material: compliance risk, information security risk (including cyber risk), model risk and outsourcing risk. It includes reputation risk, the risk associated with operational events, business practices and market conduct as well as legal risk. Operational risk does not include strategic risk or the risk of potential loss caused by decisions to accept credit risk, market risk, liquidity risk or insurance business risk.

The strategic objective of operational risk management is to ensure a coherent and effective system of operational risk identification, assessment, mitigation, control, monitoring and reporting and to ensure effective reduction of exposure to operational risk and, consequently, to reduce the number and severity of operational risk events (policy of low tolerance for operational losses).

Another objective of operational risk management is to fully integrate operational risk management processes and business decision making processes (i.e. the business strategy will be supported by operational risk assessment and business will be evaluated on the basis of pre-defined indicators of operational risk and controls).

The Bank's operational risk management system is structured to ensure proper risk management at each stage (identification, assessment, counteraction, control, monitoring and reporting).

The Bank's Management Board is responsible for the development, implementation and operation of the appropriate operational risk management system by implementing appropriate internal regulations, and for ensuring the consistency of the operational risk management system with the Strategy of the Bank and for the proper functioning of the system within the organization by analyzing information that allows the assessment whether the system is adequate to the operational risk profile. Where a need for change is identified, the operational risk management system is improved by making the appropriate corrections.

The implementation of the strategy by the Bank's Management Board is evaluated by the Supervisory Board supported by the Audit Committee and the Risk and Capital Committee on the basis of summary reports tabled by the Management Board at least once per year, which define the scale and types of operational risk to which the Bank is exposed, the operational risk management methods, the probability of materialization of operational risk, an assessment of the potential adverse impact of the operational risk management method, and the outcome of monitoring of the operational risk profile and operational risk appetite. Following its assessment, the Supervisory Board may request a revision, where necessary.

Internal Audit is responsible for independent assessment of the effectiveness of operational risk management processes and for assessment of the adequacy and effectiveness of the operational risk management system, including its regular reviews. Internal and external audit findings are integrated into the management information system and into the decision-making process related to risk management and management of the Bank.

The total amount of gross operating losses booked in the first half of 2017 does not exceed the accepted operational risk appetite.

VII. Prospects for the development of the Capital Group of Bank Handlowy w Warszawie S.A.

1. General objectives for the Group development

In its operations, the Group continues its strategy for 2016–2018 adopted in 2015, focusing on strategically important areas where it has a significant competitive advantage, allowing it to offer the most attractive products and solutions to its customers. As regards corporate and commercial banking, services provided to global companies and top tier local customers are of great significance, while credit cards are deemed the most important in the retail segment, and so are services addressed to affluent clients. Other areas where the Bank is actively involved include FX market products, transaction banking and custody of securities.

The Group's strategy is underpinned by top quality customer service and innovative products and solutions. The continuous development of the technologies in use and improvements to the product mix help the Group maintain its leading position in the market for financial services.

The Group focuses on reinforcing its existing relationships and acquiring new clients, both in the corporate and retail segment. Its strong capital position coupled with high liquidity are the key driver behind the strong and unwavering confidence of its clients. The same factors determine the Bank's market advantage which is leveraged to continuously drive the value of the Bank.

The optimization of the distribution chain based on smart branches located in large agglomerations was carried out with a parallel strong emphasis on the development of remote channels and driving sales through the remote channels. Supported by other activities in the area of new technologies, these investments will support the Bank in the further improvement of service quality and operational efficiency.

1.1 Institutional Bank

In the corporate business, the Group aims at maintaining its leading position in banking services for international corporates and top tier local customers. The Bank additionally intends to grow its share in the SME segment. The above objectives require the Bank to acquire new clients and to make efforts to improve the quality of its services provided to existing clients, in order to reinforce the mutual relationships. All those activities are addressed, in particular, to the most promising domestic sectors and to clients expanding beyond the territory of Poland (the Emerging Market Champions initiative). It is a strategic objective of the Group to play the role of a Strategic Partner to Polish businesses, actively supporting the expansion of Poland's industry. With respect to its product mix, the Bank additionally plans to further intensify its cooperation with clients who have the potential for FX trades, as well as those who look for trade finance products.

The Group leverages process optimization and innovative technologies as a way to continuously improve its performance in order to maintain its lead in the FX trading business and to enhance the offering of corporate operating accounts. The process is also intended as a response to market developments, supporting continuous readiness not only to react to changes, but in particular to make changes in response to emerging client needs.

Additionally, the Bank believes that its securitization business has recently gained in importance as its business area. Taking a decision to invest in securitizations, the Group relies on economic calculation, measuring profitability of investments against potential risks. Securitization is currently a conventional product, widely used in global markets. It is also growing in significance on the Polish market. The Group intends to become an active market player in this segment.

1.2 Brokerage activities

To a much greater extent than before, DMBH generates revenue from its retail business, developing the distribution of equity products to the Bank's clients in cooperation with the Bank. While diversifying the revenue streams, these activities contribute to a substantial increase in the future revenue potential of the brokerage business.

1.3 Consumer Bank

The Bank will still focus on these client segments and products where it has the competitive advantage. This implies further growth in wealth management and relational banking, focused on the affluent (CitiGold) and aspiring affluent client segments. In the Gold segment, the Bank will strive to consolidate its position as a leader and ensure that Citi Handlowy remains the bank of choice owing to its full range of banking products, auxiliary services, privileges and exceptional client-oriented service. In response to the needs of aspiring affluent clients, the Bank is launching the Citi Priority service. Product packages, a unique debit card, global privileges and a focus on digital client service make the offer truly special and address the needs of clients for whom state-of-the-art technology, a global lifestyle and flexible access to banking services are key. Self-service Smart branches and new Citibank Online functionalities support such flexibility.

The leading position in the credit card market is the main competitive advantage of the Bank and generates client acquisition. The main goal in this area is to maintain the leading position as measured by the number and volume of credit card transactions and to support the acquisition of new card clients by tailoring the credit card offer to the market environment and the clients' needs.

Along with the development of the modern Smart branch network, the Bank plans to implement further innovative technological solutions which will accelerate client service and sales processes.

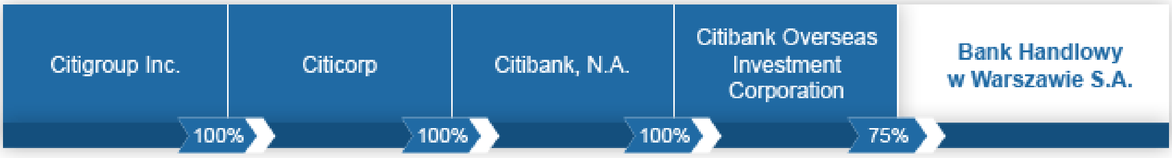
VIII. Investor information

1. The Bank's shareholding structure and performance of its shares on the WSE

1.1 Shareholders

The only shareholder of the Bank that holds at least 5% of share capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to the Citi Group and focused on its foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. In the first half of 2016, the number of shares held by COIC as well as its stake in share capital and in total voting rights at the General Meeting of Shareholders remained unchanged and amounted to 97,994,700 and 75%, respectively.

The position of Bank Handlowy w Warszawie S.A. within the Citi Group structure is shown in the diagram below:



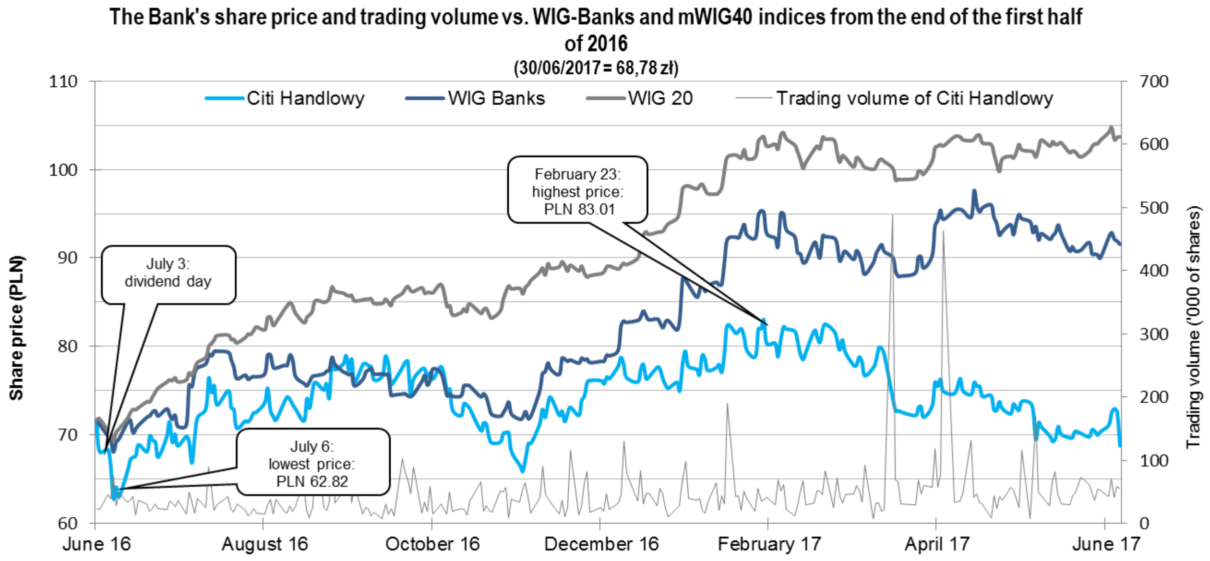
The remaining shares (32,664,900 shares representing 25% of the share capital) are free floating, which means that they are publicly traded and listed on the Warsaw Stock Exchange (WSE).

1.2 Performance of the Bank's shares on the WSE

The Bank's share price was PLN 68.78 at the end of the first half of 2017, a decrease of 4.1% within the last 12 months (i.e. compared to the closing price of PLN 71.70 as at 30 June 2016) in contrast to the WIG-Banks industry index and the mWIG40 mid-cap index, which gained 27.7% and 44.6% YoY, respectively.

In the first half of 2017, the Bank's share price fell by 10.0% compared to the 15.9% increase of the WIG-Banks industry index.

The Bank's highest share price since the end of the first half of 2016 was reached on 23 February 2017 at PLN 83.01. The average share price of the Bank in the last 12 months was PLN 74.50 and the average daily turnover in the Bank's shares was approximately 46,000 shares.



As at the end of June 2017, the Bank's capitalization was PLN 9.0 billion (compared to PLN 10.0 billion as at 30 December 2016 and PLN 9.4 billion as at end of the first half of 2016). As at the end of June 2017, stock exchange ratios were as follows: P/E (price/earnings) – 22.4 (compared to 15.9 as at 30 December 2016 and 14.4 as at the end of the first half of the previous year), P/B (price/book) – 1.4 (compared to 1.5 as at 30 December 2016 and 1.4 as at the end of June 2016).

2. Dividend

On 22 June 2017, the Annual General Meeting of the Bank decided to allocate 98.0% of 2016 standalone net profit to dividend payout, which means that the dividend per share was PLN 4.53.

The table below presents the history of dividend payments since 1997 when the Bank was floated on the Warsaw Stock Exchange.

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	970,800,828	7.43	7.43	99.9%
2015	611,486,928	4.75	4.68	98.6%
2016	591,887,988	4.62	4.53	98.0%

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits.*
*** On June 18, 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008 following the recommendation of the Polish Financial Supervision Authority (KNF) for the whole banking sector.*

3. Rating

As at end 2017, the Bank was fully rated by an international rating agency: Fitch Ratings ("Fitch") and the Bank had the following ratings awarded by Fitch:

Long-term entity ranking	A-

Long-term rating outlook	*stable*
Short-term entity ranking	F1
Viability rating*	a-
Support rating	1
National long-term rating	AA+ (pol)
National short-term rating	F1+ (pol)

** The viability rating represents Fitch's view as to the intrinsic creditworthiness of an issuer excluding any impact of external factors.*

4. Investor relations

Investor relations, which ensure information to existing and prospective investors, capital market analysts and rating agencies, are an integral element of the Bank's information policy, the purpose of which is to cater for information needs of all persons and institutions interested in corporate information. In terms of investor relations, the main information policy tools are:

- regular contacts with investors and analysts in the form of conference calls and meetings, also at the Bank's premises, attended by members of the Bank's Management Board;
- support of the Press Office during quarterly press conferences for the media held after the publication of interim reports;
- publishing on the website current information on the Bank and its projects, and all current and interim reports. The website also enables contacts with the Investor Relations Office which has a broad knowledge of the Bank and its Group of Companies.

IX. Corporate governance rules in the Group

1. Best practice at the Bank

Since 2003, the Bank has complied with the corporate governance principles approved by the Warsaw Stock Exchange ("WSE"), originally published as the "Best Practices at Public Companies 2002", and subsequently amended by the following documents: "Best Practices at Public Companies 2005" and "Best Practices for WSE Listed Companies 2008", and finally, as of 1 January 2016, "Best Practices for WSE Listed Companies 2016" ("Best Practices"), available at www.corp-gov.gpw.pl, the official website of Giełda Papierów Wartościowych w Warszawie S.A. dedicated to corporate governance at the companies listed on the WSE Main Market and on the NewConnect market.

The key objective of adopting corporate governance principles as a standard for the Bank's operation has been to establish transparent relations among all corporate bodies and entities involved in the Bank's operation as well as to ensure that the Company and its enterprise are managed properly, with due diligence and loyalty to all shareholders. The willingness to ensure transparency of the operation of Bank Handlowy w Warszawie S.A., and especially of the relationships between the Company's statutory bodies and their processes, caused the Bank to adopt the best practices as set forth in the Best Practices.

After reading the "Best Practices for WSE Listed Companies 2016", the Management Board decided to declare that the Bank was willing to comply with the corporate governance principles contained in that document, which was adopted by the Supervisory Board of the Warsaw Stock Exchange by Resolution No. 26/1413/2015 of 13 October 2015, with the following reservations:

a) not applying Recommendation IV.R.1. (holding of the annual general meeting as soon as possible after the publication of the annual report) until the annual general meeting of the Bank which will be held in 2016;
b) applying Recommendation IV.R.2. (general meeting in electronic format) subject to a decision being made by the Management Board prior to each such meeting;
c) not applying Principle VI.Z.2. (the determination of the period between the award of options or other instruments linked to company shares under an incentive scheme and the possibility of exercising such options or instruments, which should be a minimum of two years).

The Supervisory Board decided to accept the Bank's policy concerning the application of the corporate governance principles contained in the "Best Practices for WSE Listed Companies 2016" document.

Furthermore, when convening the Annual General Meeting of the Bank in 2017, the Management Board decided that Recommendation IV.R.2 points 2) and 3) contained in Chapter IV of Best Practices would not be applied; the Recommendation in question states that if this is justified due to the shareholding structure of the company or the expectations of shareholders reported to the company, and if the company is able to provide the technical infrastructure required for the smooth conduct of the general meeting by means of electronic communication, the company should enable shareholders to participate in the general meeting by using such means, in particular through two-way real time communication where shareholders are able to speak during the general meeting from a location other than the venue of the general meeting and are able to exercise, in person or by proxy, their voting rights during the general meeting.

In its decision, the Bank's Management Board considered the still existing legal, organizational and technical risks which may affect the proceedings of the meeting. These risks are associated with providing two-way communication to shareholders who do not participate personally in the meeting alongside with the means to exercise their voting rights from a location other than the venue of the meeting using means of electronic communication. These risks involve technical issues and data transmission delays which could prevent participants from speaking or voting or could lead to prolonged periods when the general meeting would be waiting for a single shareholder to communicate with the company or cast their vote by electronic means. Technical problems may generate the risk of shareholders' claims in respect of communication or the inability to vote at the meeting. It should be kept in mind that companies are in principle responsible to their shareholders for the efficient conduct of the general meeting. In practice, the use of new techniques related to the participation of shareholders in general meetings at public companies, including banks, is not common.

Notwithstanding the foregoing, the Bank broadcast the 2017 Annual General Meeting online, and recorded the meeting and published its transcript on the Bank's website after the meeting had been completed.

By resolution dated 22 July 2014, the Polish Financial Supervisory Authority issued a document entitled Corporate Governance Principles for Supervised Institutions ("Principles"). The text of the Principles is available on the https://www.knf.gov.pl/dla_rynku/Zasady_ladu_korporacyjnego?articleId=39850&p_id=18 website, which is the official website of the Polish Financial Supervision Authority.

The Principles are a set of rules governing internal and external relations of institutions supervised by the PFSA including their relations with shareholders and clients, their organization, the internal supervision function and the key internal functions and systems, as well as statutory bodies and their cooperation.

These principles are meant to improve the level of corporate governance at financial institutions and to increase their transparency which is supposed to contribute to strengthening confidence in the financial market in Poland.

On 9 December 2014, the Management Board of Bank Handlowy w Warszawie S.A. declared the Bank's willingness to comply with the Principles. On 18 December 2014, the Supervisory Board accepted compliance with those Principles that fall within the remit of the Supervisory Board.

With regard to three principles, a decision was made not to apply them:

a) para. 11.2 (related-party transactions) – this principle will not be applied to agreements concerning ongoing operating activity, and in particular to those related to liquidity due to the nature of such transactions and the number of signed agreements.

b) para. 8.4 (general meeting in electronic format) – the IT solutions that are currently available do not guarantee the security and efficiency of electronic general meetings. However, the Management Board does recognize the relevance of this form of shareholders' participation in the Bank's general meetings and therefore a separate decision in this regard will be made prior to each general meeting.

c) para. 16.1 (Polish as the language of Management Board meetings) – Management Board meetings held with the participation of foreigners, and especially foreign members of the Management Board who do not speak Polish, are held in English. At the same time, all motions examined at Management Board meetings as well as all materials and minutes of the meetings are drafted and archived in Polish and English.

The statement of the Bank's Management Board on applying corporate governance principles in 2016 is included in the Management Board's report on the activities of the Bank and the Bank's Capital Group for 2016. The statement includes the information indicated in the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-Member State (consolidated text: Journal of Laws [Dz. U.] of 2014 item 133).

It should be stressed that the willingness to ensure transparency of the Bank's operations, and especially of the relationships between the Company's statutory bodies and their processes, has resulted in the introduction of the best corporate practices listed below at the Bank.

1.1 Transparency

The Bank continues to undertake initiatives to achieve better transparency of the Bank's organization, division of rights and responsibilities and the operation of its governing bodies and their mutual relationships. To this end:

- The Bank has been publishing its financial reports in accordance with the International Financial Reporting Standards (IFRS) since 1 January 2005;
- at least half of the members of the Supervisory Board, including its Chair, are Polish citizens, and the Supervisory Board includes independent members;
- as part of the Supervisory Board, Audit Committee has been established, which is composed of two independent members of the Supervisory Board, one being the Committee's Chair;
- the compensation of the members of the Company's governing bodies is adequate to the size of the Company and reflects their scope of responsibilities;
- all important internal regulations, as well as documents and information relating to the General Meetings of Shareholders of the Bank, are available at the head office of the Bank and on its website.

1.2 Protection of minority shareholders

The Bank ensures adequate protection of minority shareholders' rights within the limits imposed by its corporate status and the associated primacy of the majority rule principle. In particular, to ensure the equal treatment of its shareholders, the Bank has adopted, among others, the following principles:

- General Meetings of Shareholders of the Bank are always held at the head office of the Bank in Warsaw;
- The Bank may hold a General Meeting in a manner allowing its shareholders to participate in the General Meeting using electronic means of communication;

- representatives of the media are allowed to be present at General Meetings of Shareholders;
- according to the adopted practice, all important materials required for the General Meeting of Shareholders, including draft resolutions with their justification and the Supervisory Board's opinion, are made available to shareholders at least 14 days before the date of the General Meeting at the Bank's head office and on its website;
- the General Meeting of Shareholders acts according to stable bylaws that define in detail the rules of holding meetings and adopting resolutions;
- the General Meeting of Shareholders is attended by members of the Supervisory Board and Management Board who give explanations and information about the Bank to other participants of the Meeting within the scope of their responsibilities;
- members of the General Meeting of Shareholders who object to a resolution have the right to justify their objection. In addition, each participant of the Meeting is allowed a possibility to make a written statement recorded in the minutes of the Meeting.

2. Best practice in Dom Maklerski Banku Handlowego S.A.

Dom Maklerski Banku Handlowego S.A ("DMBH") is not public companies, therefore it is not required to follow Best Practices for WSE Listed Companies 2016 or make any statements in that respect; however, due to its important role in the Group of Companies, the following circumstances should be considered.

DMBH is a member of the Brokerage House Chamber and as such it must follow the Code of Best Practice of Brokerage Houses developed by the Brokerage House Chamber. The Code does not regulate corporate governance matters, but primarily concerns rules pertaining to business secret protection, relations with clients and the conduct of brokerage house employees, including in relationships with other brokerage houses. DMBH is an entity that is subject to the Act on trading in financial instruments and, therefore, apart from the Commercial Companies Code, it observes certain elements of corporate governance resulting from the Act and its implementing regulations. Among others, pursuant to Article 103 of the aforementioned Act, the Management Board should include at least two members with university degrees, at least three years' working experience in financial institutions and good professional reputation. The Management Board should include persons who have the knowledge, skills and experience required to manage the brokerage house, including with respect to risk management, taking the scope, scale and complexity of its operations into account. The Polish Financial Supervision Authority is informed by DMBH of changes in its Management Board. In addition, DMBH must send mandatory reports to the Polish Financial Supervision Authority (including reports on any changes in the composition of the Management Board and on certain resolutions of the General Meeting of Shareholders). The aforementioned Act also regulates the issue of buying shares of the brokerage house and provides that the brokerage house must have its head office in the territory of Poland.

Since 1 January 2015, DMBH has been subject to the Corporate Governance Principles for Supervised Institutions ("Principles") adopted by PFSA resolution of 22 July 2014. On 23 December 2014, the Management Board of DMBH declared DMBH's willingness to comply with the Principles, and the Supervisory Board accepted compliance with those Principles that fall within the remit of the Supervisory Board.

Three Principles are not applied by DMBH:

a) para. 11.2 (related party transactions) – this principle will not be applied in respect of agreements relating to current operating activities;

b) paras. 22.1 and 22.2 (independence of the members of the supervisory body) – these principles are not applied taking into account the current composition of the Supervisory Board.

3. Governing bodies of the Bank

3.1 Changes in the composition of the Management Board and Supervisory Board during the first half of 2017

3.1.1 Changes in the composition of the Management Board during the first half of 2017

In the first half of 2017, the Bank's Management Board consisted of:

Sławomir S. Sikora	President of the Bank's Management Board
David Mouille	Vice-President of the Bank's Management Board
Maciej Kropidłowski	Vice-President of the Bank's Management Board
Barbara Sobala	Vice-President of the Bank's Management Board
Witold Zieliński	Vice-President of the Bank's Management Board
Katarzyna Majewska	Member of the Bank's Management Board
Czesław Piasek	Member of the Bank's Management Board

3.1.2 Changes in the composition of the Supervisory Board during the first half of 2017

During the first half of 2017 the Supervisory Board of the Bank consisted of:

Andrzej Olechowski	Chair of the Supervisory Board
Shirish Apte	Deputy Chair of the Supervisory Board
Marek Belka	Member of the Supervisory Board from 22 June 2017
Marc Luet	Member of the Supervisory Board from 22 June 2017
Igor Chalupec	Member of the Supervisory Board
Jenny Grey	Member of the Supervisory Board
Mirosław Gryszka	Member of the Supervisory Board
Frank Mannion	Member of the Supervisory Board
Marek Kapuściński	Member of the Supervisory Board
Anna Rulkiewicz	Member of the Supervisory Board until 22 June 2017
Anand Selvakesari	Member of the Supervisory Board
Stanisław Sołtysiński	Member of the Supervisory Board
Stephen Volk	Member of the Supervisory Board

3.2 Rules of appointing and dismissing members of the Management Board

The Management Board consists of five to nine members. Each member of the Bank's Management Board is appointed by the Supervisory Board for an individual term of office of three years. At least half of the members of the Management Board should be of Polish nationality. The term of appointment of a Management Board member expires:

- on the day of the General Meeting of Shareholders approving the Management Report on the activities of the Bank and financial report for the full past year of the term of office of the Management Board member;
- upon death of the Management Board member;
- upon dismissal of the Management Board member;
- upon resignation of the Management Board member, submitted in writing to the Chair of the Supervisory Board.

3.3 Rights of the Management Board members

The Management Board makes decisions in matters concerning the Bank by way of resolutions, provided that decisions in such matters are not reserved for other governing bodies of the Bank by law or the Articles of Association.

By way of resolutions, the Management Board:

1) defines the Bank's strategy;
2) establishes and abolishes the committees supporting the work of the Bank and defines their mandates;
3) decides the Management Board's bylaws and submits them to the Supervisory Board for approval;
4) decides the rules of handling special purpose funds created from net profit and submits them to the Supervisory Board for approval;
5) decides on the date of payment of dividend within the time limits defined by the General Meeting of Shareholders;
6) appoints holders of general commercial power of attorney, attorneys and attorneys with powers of substitution;
7) decides in matters defined in Management Board bylaws;
8) makes decisions on matters brought by the President, Vice-President or Member of the Management Board;
9) independently decides on purchase or sale of real property, or on perpetual usufruct of, or share in, real property;
10) passes a resolution on the Bank's annual financial plan, accepts investment plans and reports of implementation of such plans;
11) accepts reports on the Bank's operations and financial reports;
12) formulates decisions regarding distribution of profit or coverage of losses;
13) approves the Bank's human resources policy, credit policy and legal principles of its operations;
14) approves the rules of the Bank's equity management;
15) approves the employment structure;
16) establishes the basic structure of the Bank's organization, appoints and dismisses Heads of Sectors, appoints and dismisses Heads of Divisions, and makes decisions on their competences;
17) establishes the audit plan at the Bank and accepts audit reports;
18) resolves other issues which, according to the Articles of Association, are submitted to the Supervisory Board or the General Meeting of Shareholders;
19) makes decisions on contracting liabilities or disposing of assets, when the total value of such liabilities or assets in relation to a single entity exceeds 5% of the Bank's own funds, or appoints authorized persons to make such decisions; however, in matters within the powers of Committees appointed by the Bank the decisions are made after consulting the relevant Committee.

The Bank's Management Board designs, implements, and ensures the operation of, the Bank's management system as well as designs, implements and updates written strategies and procedures, and undertakes actions relating to the system of risk management, internal controls and internal capital assessment as well as reviews of the internal capital assessment and maintenance processes.

4. Other principles

4.1 Information on owners of securities with special control rights towards the Bank

All shares issued by the Bank are common bearer shares and have no special control rights related to them.

4.2 Limitations regarding transfer of ownership of the Bank's shares or exercising the voting rights relating to the Bank's shares

Beside limitations stipulated by the Banking Law (Article 25 et seq.), the Bank's Articles of Association put no limitations with regard to transfer of Bank's shares.

X. Other information on the Bank's governing bodies and management principles

1. Information on the total number of the shares of the Bank held by Management Board or Supervisory Board members

According to the information available to the Bank as the parent company, the Bank's shares are held by the following members of the Management Board and Supervisory Board of the Bank:

Name	Function	Number of shares as at the day of submitting this consolidated semi-annual report for the first half of 2017	Number of shares as at the day of submitting the previous quarterly interim report for Q1 of 2017
Andrzej Olechowski	Chairman of the Supervisory Board	2,200	2,200
Total		**2,200**	**2,200**

Members of the Management Board and Supervisory Board of the Bank do not have any Bank share options.

2. Information on any agreements between the Bank and the Management Board members that provide for compensation in case of resignation or dismissal of such members without a valid reason, or when such dismissal is a result of a merger or acquisition of the Bank

Among all employment contracts between the Bank and the members of the Management Board of the Bank, there is only one contract with a member of the Management Board that provides for financial compensation in the case of termination with prior notice or pursuant to Article 53 of the Labour Code.

Each member of the Management Board of the Bank has signed a separate non-competition agreement with the Bank. In accordance with this agreement, if the employment relationship with the Bank is terminated, the member of the Management Board is obliged to refrain from undertaking any competitive activities in a period of 12 months (or 6 months in the case of one of the Management Board members). On account of this restriction, the Bank will be obliged to pay compensation to a terminated member of the Management Board.

3. Management policy

During the first half of 2017, no changes in the management principles were made. The management principles are outlined in the Note to the Interim Condensed Consolidated Financial Statements of the Capital Group of Bank.

XI. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Management Board of the Bank, composed as at the date of preparation of the financial statements of: Mr. Sławomir S. Sikora – President, Mr. Maciej Kropidłowski – Vice President, Mr. David Mouillé – Vice President, Ms. Barbara Sobala - Vice President, Mr. Witold Zieliński – Vice President, Mrs. Katarzyna Majewska and Mr. Czesław Piasek – Member, the semi-annual financial data and comparative data presented in the "Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2017" and the "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2017" were prepared in accordance with the applicable accounting principles and give a true, fair and clear picture of the assets and the financial standing of the Bank and the Group as well as the financial result of the Bank and the Group. The "Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2017", contained in the semi-annual consolidated report, gives a true picture of developments, achievements and situation (and describes major risk) of the Group in the first half of 2017.

Selection of the auditor authorized to audit the financial statements

The licensed auditing firm KPMG Audyt Sp. z o.o. sp.k., which reviewed the "Condensed Interim Standalone Financial Statements of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2017" and the "Condensed Interim Consolidated Financial Statements of the Group of Companies of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2017", was appointed in accordance with applicable laws. The firm and the statutory auditors who performed the review satisfied the conditions necessary for issuing an objective and independent report on the review of those statements, in accordance with applicable laws and professional standards.

Other information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-Member State (Journal of Laws [Dz. U.] of 2014 item 133, as amended) was provided in the Condensed Interim Consolidated Financial Statements of the Bank's Group of Companies.

Members of Management Board signatures

Date	Name	Position/Function	Signature
21.08.2017	Sławomir S. Sikora	The President of Management Board	
21.08. 2017	Maciej Kropidłowski	Vice-president of Management Board	
21.08. 2017	David Mouillé	Vice-president of Management Board	
21.08. 2017	Barbara Sobala	Vice-president of Management Board	
21.08. 2017	Witold Zieliński	Vice-president of Management Board, Chief Financial Officer	
21.08. 2017	Katarzyna Majewska	Member of Management Board	
21.08. 2017	Czesław Piasek	Member of Management Board	